U.S. PASSENGER VESSEL DEVELOPMENT AND TAX

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U.S. Passenger Vessel Development a... ERCHANT MARINE

OF THE

COMMITTEE ON MERCHANT MARINE AND FISHERIES HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

ON

H.R. 3821

A BILL TO PROMOTE CONSTRUCTION AND OPERATION OF PASSENGER VESSELS IN THE UNITED STATES, AND FOR OTHER PURPOSES

H.R. 3822

A BILL TO AMEND THE MERCHANT MARINE ACT, 1936, AND THE INTERNAL REVENUE CODE OF 1986 TO PROMOTE CONSTRUCTION AND OPERATION OF PASSENGER VESSELS IN THE UNITED STATES, AND FOR OTHER PURPOSES

APRIL 13, 1994

Serial No. 103–96

Printed for the use of the Committee on Merchant Marine and Fisheries

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U. S. PASSENGER VESSEL DEVELOPMENT AND TAX

WEDNESDAY, APRIL 13, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON MERCHANT MARINE
COMMITTEE ON MERCHANT MARINE AND FISHERIES
Washington, DC.

The Subcommittee met, pursuant to call, at 10:00 a.m., in room 1334, Longworth House Office Building, Hon. William O. Lipinski (Chairman of the Subcommittee) presiding.

Present: Representatives Lipinski, Unsoeld, Furse, Cantwell, Kingston, Fowler.

Staff Present: Keith Lesnick, Staff Director; Randy Morris, Clerk; Fred Zeytoonjian, Counsel; Natalie Hidalgo, Professional Staff Member; David Honness, Professional Staff Member; Hugh N. Johnston, Minority Counsel.

STATEMENT OF HON. WILLIAM LIPINSKI, A U.S. REPRESENTATIVE FROM ILLINOIS, AND CHAIRMAN, SUBCOMMITTEE ON MERCHANT MARINE

Mr. LIPINSKI. Good morning, folks. I would like to welcome you to this hearing of the Subcommittee on Merchant Marine. I would also like to thank our witnesses for appearing here today. Your testimony is greatly appreciated.

Today the Subcommittee will hear testimony on H.R. 3821 and H.R. 3822, bills designed to stimulate the construction and operation of U.S.-flag cruise vessels. Over 4 million people took cruise vacations in 1992 generating $5 billion in revenue. These figures are expected to double by the end of the decade.

Clearly, the cruise line business is the fastest growing segment of the maritime industry. Although most people envision the Love Boat when they think of a vacation cruise, this is not an accurate picture of the present situation.

The popular television show depicted a large vessel crewed by American seamen. Today 95 percent of the North American cruise market is served by foreign-flag vessels with a minimum of U.S. crew members.

To combat this situation and help promote the growth of a U.S.-flag cruise vessel fleet, Congresswoman Jolene Unsoeld introduced the legislation before us today. At this time I would like to recognize her for an explanation of her bills and any opening remarks she would care to make. Congresswoman Unsoeld.

STATEMENT OF HON. JOLENE UNSOELD, A U.S. REPRESENTATIVE FROM WASHINGTON

Mrs. UNSOELD. Thank you very much, Mr. Chairman, and thank you for having this hearing. I know that the Members of this Subcommittee and also of the Full Committee have a very strong interest in seeing U.S.-flag interests capture a portion of the rapidly expanding U.S.-based foreign cruise industry, and there is much at stake here as you indicated, Mr. Chairman.

Thousands of jobs are sailing overseas and billions of dollars are being taken out of our economy every year. In my home state of Washington alone, U.S. ship operators and builders, as well as port and Chamber of Commerce interests, watch in dismay as tens of thousands of tourists fly into the Puget Sound area only to be bused across the border to start their cruise vacation in Vancouver, British Columbia.

For several years now I have been working with these local interests and their national representatives to determine how we can open our ports and cities to cruise ships. These discussions started with an agreement that we would reject previous proposals to amend the Passenger Services Act and instead seek to maximize U.S. jobs through a U.S.-flag industry.

Our efforts have produced two bills that together I believe will help not only the ports in my state but ports along both coasts and in the Gulf. They are designed to create jobs for American shipyards and operators, not just in the Northwest but around the country.

They offer incentives to help larger U.S.-flag cruise ships that ply our oceans and smaller ones that sail on our rivers and stop at smaller ports. A key feature of our proposal allows a U.S. owner or charterer of a foreign-flag vessel to operate in U.S. trades under an interim coastwise passenger trade endorsement.

As a condition of this interim status, the owner or charterer must begin constructing a replacement vessel in a U.S. shipyard within three years and the reflagged vessel operating under the interim status would have to comply with U.S. laws including those that require repair work to be done in U.S. yards.

These interim provisions would sunset in the year 2000. I have been encouraged, Mr. Chairman, by the positive response this package has generated and by the willingness of U.S. maritime interests to work with me to craft a package that has broad support.

I expect there to be further refinements as the bills go through the legislative process, in particular, some have suggested ways to refine the conditions for issuing an interim coastwise passenger trade endorsement. While I believe there is room for both improvement and compromise in this area, I view this interim status as a necessary short-term measure to jump start a U.S.-flag cruise industry.

I want to be clear that this section is not an attempt to undo the protections of the Passenger Service Act. Those attempts have been tried in the past and they have been and will continue to be rejected by me and I suspect other Members of this Committee.

Mr. Chairman, I want to thank you again for your leadership on this issue. I believe that the staff has prepared an excellent summary, and I have a section-by-section analysis that I will also in-

clude in the record but I think it more important that we hear from our witnesses now and I very much appreciate your interest and work to get us this far.

Mr. LIPINSKI. Thank you very much, and I want to compliment you on this legislation and I want you to know that I appreciate all the work that you have done on this. I know that you and your staff have done a great deal of work on it and you have kept me informed of your progress. You have also kept me informed me of the need for this hearing that we are having today.

I appreciate your persistence on all of these matters and all of the materials that you have there we will, without objection, accept for the record at this particular time. Mr. Kingston, do you have an opening statement?

Mr. KINGSTON. No, Mr. Chairman. I look forward to working with you and Mrs. Unsoeld on this and appreciate your leadership on this issue.

Mr. LIPINSKI. Thank you. Ms. Cantwell.

Ms. CANTWELL. Thank you, Mr. Chairman. I do not have an opening statement. I just want to commend you and the Committee for holding this hearing today and I want to congratulate my colleague, Mrs. Unsoeld, from Washington, for her hard work and diligence on this issue.

This is an issue that is of critical importance to the state of Washington and we appreciate the Committee's attention to it.

Mr. LIPINSKI. Thank you very much. Our first witness this morning will be Mr. Robert E. Gogerty on behalf of the National Cruise Ship Alliance. Good morning, sir.

STATEMENT OF ROBERT E. GOGERTY, CHAIRMAN OF THE NATIONAL CRUISE SHIP ALLIANCE

Mr. GOGERTY. Good morning and thank you, Mr. Chairman, and Members of the Committee. Thank you for holding this hearing and thank you for cosponsoring this legislation.

My name is Robert Gogerty and I am from Seattle and I am the Chairman of the National Cruise Ship Alliance—an alliance which includes business; labor; public officials; including your former colleague, Governor Mike Lowery, who has submitted testimony; repair yards; ports from across the country.

And the alliance's sole dedication is the education and organization around this bill because it is, we believe, of critical importance, not just to our community, but we think to our country.

And the people that are—the organizations that are—in the alliance, many of them are former adversaries, adversaries that had a common goal which was to get our country back in the cruise ship business but who maybe had different directions on how to get there.

And I would like to say that to use Puget Sound as an example of maybe what the problem has been with the industry. Puget Sound, as Congresswoman Unsoeld pointed out, 120 miles to the north lies Vancouver, British Columbia.

And because of the peculiar geographic situation and because of the Passenger Services Act, the irony is that Vancouver enjoys probably one of the best cruise ship operations in the world.

450,000 passengers last year left Vancouver, British Columbia, on 236 sailings, all destined for U.S. destinations: Glacier Bay and Juneau, Alaska. In that community it is a $120 million impact just from the cruise ship business.

When our community in Puget Sound looked at that, our first reaction was, gee, why can't we participate in that because 85 percent of the people cruising from there are U.S. citizens. Most of them are coming through Seattle-Tacoma International Airport and our approach was, gee, in looking at this, why can't we get an exemption to the Passenger Services Act, just take care of us, give us a Puerto Rican-type exemption and we will be just fine.

We ran into a lot of problems with that approach. Problems where maritime interests said if you just continue to chip away at the Passenger Services Act, you are going to take away all the incentives that is left to get this country into the cruise business.

We were frustrated until Congresswoman Unsoeld pulled all the parties together and essentially said either you are going to hang separately or you are going to hang together and if we hang together, we have an opportunity to put this industry back on the U.S. map.

And so for the last year that is what we have done. We have organized our part of this. The National Cruise Ship Alliance's part of this effort was the national organization and we have raised money in our community and taken volunteers and gone out across the country, New York and Florida, Louisiana and Texas, and everywhere that there was a port and talked to public officials and labor leaders and shipyard people and really educated and organized around this really important issue.

The bill before you now, we believe, has the right incentives to establish a U.S. industry: the Title XI provisions, the Capital Construction Fund, the ownerships so we can attract foreign capital, the SOLAS requirement changes, the convention deductions and so forth, really say that there is an opportunity now with these incentives for the United States to get into this business.

And just in closing may I tell you once again that Vancouver can serve as an example of what we should do. Just recently there has been an announcement that Vancouver intends to spend $750 million to increase their capacity for cruise ships which they are now—they cannot take any more.

The increase in cruise capacity, they believe will be 140,000 new passengers a year, create 1,000 new jobs, and they intend to pay for this with a gambling casino at the heart of this entire waterfront development. And part of the proceeds will go to subsidize the cruise ship part of this, and part of it will go to subsidize cargo.

So that is a compelling reason for this legislation to be enacted. Thank you, Mr. Chairman.

[Statement of Robert R. Gogerty may be found at end of hearing.]

Mr. LIPINSKI. Thank you very much for your testimony. Your formal testimony will be accepted as part of the record without objection.

Our next witness will be the Executive Director of the Passenger Vehicle Association, Mr. Eric Scharf. Is that the correct pronunciation of your name?

Mr. SCHARF. Correct pronunciation. The association is the Passenger Vessel Association.

Mr. LIPINSKI. What did I say?

Mr. SCHARF. Vehicle.

Mr. LIPINSKI. More importantly, how do you pronounce your last name?

Mr. SCHARF. It is Scharf.

Mr. LIPINSKI. Scharf, OK, good. My assistant over here proceeded to whisper two different pronunciations in my ear almost simultaneously.

STATEMENT OF ERIC G. SCHARF, EXECUTIVE DIRECTOR, PASSENGER VESSEL ASSOCIATION

Mr. SCHARF. It is good to be here this morning to represent our 500 company members throughout the United States. We are pleased that a number of them are located in Chicago; Mercury Yacht Charters, which operates the First Lady, and Wendella Sightseeing, also operating along the river.

The membership also includes more than 20 members in the Seattle area, notably Seattle Harbor Tours and the Washington State Ferry System, which we are very pleased to work with them. I will be in Seattle this weekend for our regional meeting preparing for some Coast Guard hearings on Monday.

Among the most vibrant and exciting part of our membership though is what we call the small-ship overnight cruise market, much of which operates out of the Seattle area up to Alaska and then along on the east coast.

We have been pleased with the introduction of this legislation that it is giving Congress the opportunity to highlight this particular part of the maritime industry. We are also pleased that we are able to represent the only two large U.S. cruise ships that presently operate under the U.S. flag, that being the S.S. *Independence* and the S.S. *Constitution* which are owned by the Delta Queen Steamboat Company of New Orleans.

They are demonstrating their confidence in this market by embarking on a $25 million renovation of the Independence this year and then a similar renovation next year of the Constitution as well as a $60 million investment for a new riverboat, the American Queen.

It is a real pleasure to be here today and to support H.R. 3821 and 3822 and to thank and salute Mrs. Unsoeld and her team sponsors who have brought this legislative initiative forward, and we are real pleased to have you to do that.

We think that it has been an unprecedented effort to forge a consensus on this issue and bringing together this group today is an important way to bring that forward.

We feel your bill addresses in a straightforward but fair manner the vexing problems that face our merchant fleet here in America which is the absence of large U.S.-flag cruise ships in this domestic market.

As we understand it, the bill would give individuals an incentive to build and operate these large U.S.-flag passenger vessels in domestic markets where they do not exist by allowing them to enter

with a foreign vessel and subsequently committing to building replacement vessels in U.S. shipyards.

And we have among our membership a number of the shipyards that would hopefully be benefited by this and feel that is important.

Let me today highlight quickly three issues: First, an observation about the size threshold incorporated in the bill. It was in part a response to some of our members that led Mrs. Unsoeld to propose certain thresholds in these bills.

After further discussion with them, we would like to recommend at this point that a standard of 1600 gross tons and 200 berths be substituted for the proposal that was originally made of 250 gross tons and 175 berths in existing bills.

We feel that this would more accurately reflect where the breaks between the small and the large portion of the markets would be. Second, the timetables and commitments required of an owner under Section 3 of the bill may not be sufficient to insure that the objectives set forward are met.

Taken together, these time periods afford an individual to mean that they could have the privilege of operating a foreign-flag vessel in domestic markets for years before the U.S. built replacement is operational.

That construction may not begin before the end of 42 months after the issuance of the interim endorsement. To address some of these concerns, we suggest that the Subcommittee consider amending Section 3 to require an owner or charterer contemplating an interim coastwise passenger trade endorsement for a passenger vessel to present to the Secretary, a signed letter of intent to enter into a contract upon application of the interim certificate.

My testimony goes into more detail on all of this and I will leave it to you to follow up on that in the material that is being submitted.

Third, we want to express our support for H.R. 3822 which would assist in insuring that the vessels envisioned by 3821 are indeed built. While separate on paper, the two measures together form the basis for a program to bring these ships forward, and we hope that they can be enacted in tandem.

We particularly want to express our strong support for the extended use of the Capital Construction Fund program to all passenger vessels in all markets. Currently an inequity exists in that the program is somewhat restricted within our membership, and we feel that should be addressed forthwith.

We submitted testimony to the Ways and Means Subcommittee on this subject in support of Congressman Bill Jefferson's proposal, and we hope that the Committee can help move this forward as quickly as possible.

Again, we appreciate the opportunity to come here today and to be part of these discussions and look forward to being a part of the solution as we move forward. Thank you.

[The prepared statement of Mr. Scharf may be found at end of hearing.]

Mr. LIPINSKI. Thank you very much for your testimony, and your typed statement will be submitted for the record without any objection.

I understand there is also a statement from the Republican side this morning submitted by Mr. Fields. It will be accepted as part of the record without objection also.

[The statement follows:]

STATEMENT OF HON. JACK FIELDS, A U.S. REPRESENTATIVE FROM TEXAS, AND RANKING MINORITY MEMBER, COMMITTEE ON MERCHANT MARINE AND FISHERIES

Mr. Chairman, I am pleased that the Subcommittee is holding this hearing on H.R. 3821, the United States Passenger Vessel Development Act, and H.R. 3822, the United States Passenger Development Tax Act.

Taken together, these two bills are designed to -promote the construction and operation of U.S.-flag, coastwise qualified passenger ships that will operate out of American ports and cater to American tourists and business people.

I want to applaud the efforts of our colleague from the State of Washington, the Honorable Jolene Unsoeld, for her efforts and creativity in crafting the two bills before the Subcommittee today. For a number of years we have been looking at legislative proposals designed to create opportunities for American businesses to enter the lucrative cruise ship trade. As we all know, this trade is currently dominated by foreign-owned, foreign-flagged cruise ships. H.R. 3821 may be the vehicle that can finally break the impasse that has stymied efforts to enact legislation to revitalize the U.S.-flag cruise ship industry.

H.R. 3821 could very well provide the mechanism to allow Americans to prove that we can compete with the foreign cruise ships, by using vessels manned by American citizens and, ultimately with American-built cruise ships. This legislation deserves to be thoroughly reviewed by our Committee because it contains several good ideas worthy of consideration.

With regard to H.R. 3822, I wish I could be as optimistic. The economic problems of our country, and related budgetary concerns of this Congress, may make it more difficult to enact legislation designed to provide American entrepreneurs with additional tax incentives.

However, I support the provisions of this bill dealing with the proposed changes to the Capital Construction Fund, and would note that these provisions are substantially the same as H.R. 2151, the bill that was approved last summer. Unfortunately that bill has been languishing before the Ways and Means Committee.

While H.R. 3821 would provide the statutory mechanism to allow Americans to enter the domestic cruise trade with an interim coastwise documentation of a foreign-built vessel, the tax provisions of H.R. 3822 may well hold the key for the long term viability of a domestic cruise ship industry.

Mr. Chairman, I look forward to the testimony today, and would observe that we may be on the treshold of reestablishing a domestic passenger cruise industry. I hope that our witnesses today will recognize the critical importance of working together to fashion an appropriate legislative solution.

Thank you, Mr. Chairman.

Mr. LIPINSKI. Our next witness this morning, his name I will have no trouble pronouncing because I have a large constituency of Italian-Americans in my congressional district, his name is Mr. Joseph Valenti, Executive Director, Port of Tampa Bay. Good morning.

STATEMENT OF JOE VALENTI, PORT DIRECTOR, PORT OF TAMPA BAY

Mr. VALENTI. Good morning, sir. Thank you, Mr. Chairman, and Members of the Committee. It is a pleasure to be here today to testify with regard to H.R. 3821 and 3822.

As you mentioned, I am the Director of the Port of Tampa in Florida. The Port of Tampa is primarily a bulk port and we are known worldwide because we are a large segment of the fertilizer industry in the United States.

Since the late '70's, we have been involved in the cruise ship business in one form or another. Before I was the port director I was the deputy director and one of the things I did was go around

and talk to cruise ship lines and try to induce them to come into the port so I am familiar with what they thought and what they could not do and could do.

And as we watched this enormously important tourist business grow in the '80's to an industry that now generates over 450,000 full-time jobs and has a payroll of something like $14.6 billion in compensation, we found our abilities as a port somewhat limited to be part of the expansion that was going on during that time.

Basically the reason we could not be part of it was that the segment of the industry that was growing was the short cruise, the three and four-day cruise. People in the United States were taking shorter vacations because they did not have as much time as they wanted so they kidded themselves into having more time by taking shorter breaks.

The problem was we were on the wrong side of Florida. There was no Bahamas on the west coast of Florida. The ports on the east coast were the ports that had the Bahamas that could be the foreign country of convenience for the itineraries for three and four days.

What we found really frustrating was that we thought that there were some great opportunities. Very exciting packages could be put together but they required going to U.S. ports such as Key West, New Orleans, or Galveston.

Yet because of the absence of a U.S.-flag fleet, this was impossible. We are not the only port that suffered in this way. Many of our Gulf ports, for example, are in the same position. At least in our case the home ports stayed in the United States.

As was mentioned, in the Northwest that is not the case and truly the most lucrative part of the whole business is up in the Northwest in the Alaskan area. That is the heart of the cruise ship business today.

In addition to the benefits which are associated with home porting, the creation of a U.S. cruise fleet would bring about some U.S. jobs afloat and we all know that there really are not many places for the U.S. Merchant Marine to go today.

There is also the opportunity to capture a larger share of tourist dollars in the United States presently that are going ashore to some other shores.

Last, but not least, we have the opportunity to rejuvenate our shipyards. The Port of Tampa is also the home of one of the largest shipyards in the country and last November Tampa Ship, Inc., declared bankruptcy mainly due to the fact they had lost defense work. 1200 workers lost their jobs and a multitude of supply and support businesses were also severely affected by this.

The creation of the incentives for a U.S. cruise fleet would certainly help this. I think this could take the form of a catalyst to bring about this most important industry's new life.

Sustaining a merchant marine, modernizing our shipyards are also important from a defense standpoint and I think this was clearly demonstrated with regard to Operation Desert Storm. Without the bottoms, without the seamen and without the yards to maintain those ships, we certainly are not in a position to move all of the goods that need to be moved to support something like that.

For all of these reasons, the Port of Tampa and all of its sister public ports within the United States applaud Mrs. Unsoeld, the other cosponsors of the bill and the Congress for considering this legislation and we heartily endorse H.R. 3821 and 3822. Thank you very much.

[Statement of Joe Valenti may be found at end of hearing.]

Mr. LIPINSKI. Thank you very much for your testimony this morning. Our next witness will be Mr. Terry Turner, National Director of Political Action and Government Relations, Seafarers International Union. Good morning, Terry.

STATEMENT OF TERRY TURNER, NATIONAL DIRECTOR OF POLITICAL ACTION AND GOVERNMENT RELATIONS, SEAFARERS INTERNATIONAL UNION

Mr. TURNER. Good morning, Mr. Chairman. Mr. Chairman, Madam Unsoeld, Members of the Subcommittee, the Seafarers International Union of North America represents thousands of merchant seamen working on U.S.-flag ships operating in both the domestic and international trades.

SIU members crew the only two U.S.-flag oceangoing passenger vessels, the Constitution and the Independence, and we appreciate this opportunity to express our strong support for H.R. 3821 and 3822.

At this point, Mr. Chairman, I would also like to add that recognizing that we would also support additional amendments that would further protect the ongoing U.S.-flag operations, in particular the Constitution and the Independence.

In my written statement we have submitted for the record, we also discussed the issues of maritime safety but I would like to address two other issues here, particularly the employment opportunities that this bill brings.

Passage of H.R. 3821 and 3822 will help promote the development of a viable U.S.-flag cruise fleet by making it possible to operate U.S.-flag cruise ships on competitive terms with foreign-flag ships.

It is estimated that a U.S.-flag fleet of approximately 30 1250-passenger vessels would be required to serve that portion of the U.S. cruise market identified as the market goal by the Passenger Vessel Development Act.

Consequently, passage of H.R. 3821 and 3822 will do the following: generate approximately 31,500 shipboard jobs for the U.S. mariners on U.S.-flag cruise ships. It would also generate commercial shipbuilding contracts for U.S. shipyards. Shipbuilding contracts would total 5 to 6 billion and generate 15 to 18 billion in related economic activity supporting an additional 100,000 jobs.

Also, it would benefit the U.S. steel industry by generating demand for a minimum of 1,080,000 tons of U.S. steel, the amount of steel needed to build 24 1250-passenger vessels.

It would also benefit the economies of leading steel-producing states such as Indiana, Ohio and Pennsylvania. It would also benefit suppliers in the coal and iron ore industries and the ports to who those commodities are shipped.

It would also result in the development of new coastwise itineraries bringing cruise ships and the economic benefits that they

generate to U.S. port cities that have been unable to attract a significant share of foreign-flag cruise business.

It would also significantly increase the number of longshore and other port jobs throughout the country. And, lastly, it would generate jobs in local transportation, utility services, wholesale and retail trade, finance, insurance and real estate industries in and around the U.S. port cities.

Additionally, Mr. Chairman, I would like to talk about the national security impact of this legislation. The development of a viable fleet of U.S.-flag cruise ships will benefit national security by doing the following: it would increase the number of U.S.-trained U.S. mariners by generating thousands of additional seafaring jobs.

At present there are approximately 11,400 shipboard jobs in the United States merchant marine, 11,400. An additional 31,500 shipboard jobs on 30 U.S.-flag cruise ship vessels would bring the total number of U.S. seafaring jobs to 42,999. Maybe we can get the extra one and make it an even 43,000.

Of these 43,000 jobs between 4000 and 6000 would be operating positions. Obviously, skilled operating crews are needed to operate the vessels used to transport supplies, heavy equipment and troops during military operations.

These ships can also be used for recreational facilities for U.S. troops, hospital ships, offshore command/control centers, offshore barracks for U.S. military personnel when suitable shoreside facilities do not exist or, for security or political reasons, they cannot be used.

Several recent cases can be cited of cruise ships being used in these other capacities during military operations. For example, during the Falklands War in 1982, Britain called upon three cruise ships, the QE2, the Canberra and the Uganda and several passenger/car ferries for assistance.

The Uganda was used as a hospital ship and members of its non-operating crew served as stretcher bearers and performed other services. During the Desert Shield/Desert Storm operations, the U.S. Navy's Military Sealift Command contracted with the Cunard Line for a cruise ship that served as an R&R facility for U.S. military personnel.

In conclusion, Mr. Chairman, there is clearly a wide range of benefits associated with the development of a U.S.-flag cruise ship. In order to maintain the goal of developing such a fleet, however, potential U.S.-flag cruise ship operators must be offered operational incentives to compensate for higher U.S.-flag regulatory costs and the competitive tax advantages afforded to foreign-flag operations.

The SIU believes that H.R. 3821 and 3822 offer the necessary operational incentives and that their passage will assist in the development of a viable U.S.-flag cruise fleet. Therefore, we urge this Subcommittee and the full house to support and vote for the passage of these bills.

Thank you very much, Mr. Chairman, for the chance to address you.

[Statement of Terry Turner may be found at end of hearing.]

Mr. LIPINSKI. Thank you, Mr. Turner. We will accept your typed statement and also that of Mr. Valenti for the record. We are going

to start the questioning with the sponsor of these bills, Congresswoman Unsoeld, but I just have one brief question before I turn the microphone over to her.

I would like to know, I was in Seattle—we have so many people here from Seattle so somebody should be able to answer this question for me. I was in Seattle between December 27 and January 3 of this year and I wanted to go to Victoria.

I want to know why I had to drive about 150 to 175 miles north of Seattle to get a ferry to go over to Vancouver to get to Victoria. Why could I not get a ferry right downtown there in Seattle? Who wants to volunteer to answer that question?

Mr. SCHARF. Were you driving or——

Mr. LIPINSKI. I was driving, yes.

Mr. SCHARF. OK, because we have a member that takes you over there on a high-speed ferry but it is no car-train.

Mr. LIPINSKI. It would not take my car at all.

Mr. SCHARF. No, it would not take your car but you can go over for the day and have a lovely day in downtown Victoria.

Mr. LIPINSKI. That goes over once in the morning, right, and it comes back at night?

Mr. SCHARF. Or you can stay overnight at the Emperor's Hotel. It is lovely, lovely.

Mr. LIPINSKI. I stayed overnight at the Empress Hotel.

Mr. GOGERTY. I believe that there is under consideration right now a new service that would in fact do what you would want to do and we have had that service in our community for years. It just was not economical and they discontinued it a few years ago but they are under consideration right now to——

Mr. LIPINSKI. You say it was not economical?

Mr. GOGERTY. No, it was not, and they had a service, quite frankly, the Canadians were gambling on the—casino gambling aboard the ship which is tolerated. It is not legal but tolerated in Canadian waters, and it was tolerated in U.S. waters, but not in State waters. Puget Sound in the Strait of Juan de Fuca happened to be state waters.

Mr. LIPINSKI. I was just surprised that you had to drive out of Seattle an appreciable distance before you could get a ferry to go over to Vancouver. It would have seemed logical to me and it would also have seemed like it would be more profitable to have something go right from Seattle to Victoria.

You can almost see it from—I understand on a clear day you can almost see it. It rained for the six days we were there. It is a wonderful city, Seattle. They have the greatest coffee in the world. Starbuck's is terrific but Seattle's Best is even better. Congresswoman Unsoeld, thank you for your answer.

Mrs. UNSOELD. Thank you, Mr. Chairman. Bob, as Chairman of the National Cruise Ship Alliance, you have been traveling all around the country talking about these ideas and I appreciate that you have helped generate a lot of letters of support from ship operators and builders as well as a really wide economic—diverse group of economic interests in Boston, New York, Philadelphia, Galveston, San Diego, San Francisco and Seattle.

Now you have been on this topic for a long time and so you are aware of some of the difficulties with previous efforts to bring

cruise ships to U.S. ports. In your opinion, what is it about this proposal that appeals to that wider range of interests?

Mr. GOGERTY. Well, the word "wide" I think is the first response. Before we had a very narrow, and I think everybody had their own narrow' interest that they were looking at and by broadening this out and looking at the total picture, that is, the establishment—not just the ability to go from Seattle to Alaska but the establishment of a total industry has been—when we go around the country and talk about this, that is number one.

People really are not aware that there is an industry waiting to happen here and when we talk to chambers, for instance, and we talk about building these ships, they always say, well, we cannot be competitive wage wise. And we respond our wage rates now are competitive worldwide. That is always new information.

And the second thing is the whole coastal cruising and when we go to Philadelphia, they are very excited about the Americana cruises that could happen where people could actually experience the history of our country and do it by cruising which is very popular; so it's the combination of those two things.

And, finally, the fact that we are not arguing with each other but we are all working together. It really helps to have business and labor speaking the same language.

Mrs. UNSOELD. What kind of response have you gotten in regard to the potential for convention use and incentive travel?

Mr. GOGERTY. The response that we have gotten is that that probably is the biggest incentive in this entire package—the ability to change the convention deduction to have no limit, as there is no limit now on land-base conventions, on U.S. ships.

The foreign-flag carriers that we have talked to say that that would be an enormous incentive for them to consider building under this legislation.

Mrs. UNSOELD. Thank you. Terry, your organization like a lot of others provided very constructive comments during the drafting of this legislation. One of the things that has changed from current law, would be changed, is the percentage of foreign ownership on U.S.-flag cruise ship vessels from 25 percent to 49 percent.

Is this something that your organization can support and, if so, what kind of benefits do you see this provision providing?

Mr. TURNER. Madam Unsoeld, as you indicated earlier, basically we just kind of wiped the table clean and started over to try to build some legislation here that would in fact work.

And many of our preconceived conditions and feelings about some of the parts of this legislation had to be looked at and I think this is one of those areas where we took a long, hard look at this because it is a significant raise in terms of foreign ownership.

But the fact of the matter is you cannot really attract the kinds of capital that you need to jump start this industry. That is a major incentive in bringing in the dollars needed to build the U.S. ships.

So we have looked at that, we have studied it, and we are going to be supporting it.

Mrs. UNSOELD. What about the interim ship provisions, does your organization accept or support that concept and what benefits do you see that bringing to the potential industry?

Mr. TURNER. Well, again, I think initially this was a provision that was basically misread by the industry. These are not foreign-flag ships who come in with foreign crews. They are in fact U.S. crews with a U.S. flag on an interim basis tied to a contract with a U.S. shipyard.

Now there is some debate, I think, among the supporters of this bill how long that interim period is and how many years you have to have before you have to build. We would be supportive of anything that tightens up those requirements but does not stifle the ability of a U.S. operator to come in and build this industry.

We think it is a novel idea, we think it is an idea that was used, I think, several years ago in the Gulf on a sulfur carrier that had run aground and there was a temporary need to carry sulfur. The interim idea worked then on a very small basis. I think it could work now and I think it could jump start this industry.

Mrs. UNSOELD. Thank you. Mr. Valenti, the Port of Tampa seems to have an industry waiting to happen. In your opinion, is there enough in this package to actually lure potential investors into investing in U.S.-flag vessels?

Mr. VALENTI. I would hope so. The concept of going U.S.-flag is something that we at the Port of Tampa have been talking about now for about eight or nine years. We were driven that way for the reasons that I mentioned.

We were stifled in having this industry grow simply because we did not have a Bahamas near us. So we started looking at all the other opportunities and pitching them to cruise lines.

And when we started doing this, and this would have been in the mid-'80's, there was hardly anyone who thought that that was ever going to happen. And as the years have gone on, the numbers of people who are lining up and thinking it could happen are changing, without question.

First of all, I do not think there is that big a difference between a European crew and a U.S. crew in the expenses any longer. It is not as big a gap as it used to be. Statements that were made with regard to getting work done in shipyards as far as an hourly rate are true; we are competitive with European people.

We may not have the shipyards that are as modern. We do not have necessarily the techniques but the opportunity is there to have partnerships with people who want to bring those techniques to us.

The issues and statements that were made with regard to conventions are absolutely correct in northern Europe between Sweden and Finland. More people move between those two countries than exist in those two countries as a population. They go on these super ferries which are really very luxurious car ferries and they have the greatest convention facilities you will ever see.

They look as good as any convention facility you will see in any major convention complex in the United States. The majority of their business is in this convention business as well. So I think you've got all the ingredients there.

I feel that the tide has been changing with regard to people's opinions, and I think it could happen, I really do.

Mrs. UNSOELD. Thank you. Mr. Chairman, if you would allow me a little bit more time, I would just ask whether any of the other members of the panel wanted to comment on that same issue.

Mr. GOGERTY. Just on the convention side, the North American cruise industry today is about a $5 billion industry and it is projected to double by the end of the decade. The convention business today in North America is a $57 billion industry so the incentive there is quite big.

And, as Mr. Valenti points out, that could be a real big incentive for business.

Mrs. UNSOELD. Mr. Chairman, I want to thank you again and express my eagerness to continue to work with the people who have helped to bring this bill this far along and to work with you so that we can move it from talk to action. Thank you very, very much, Mr. Chairman.

Mr. LIPINSKI. Thank you. The Chair recognizes Ms. Fowler.

Ms. FOWLER. Thank you, Mr. Chairman. Just one comment. Mr. Turner, I was reading in your testimony with interest the comments you made dealing with national security and how if we can proceed forward with this and if these additional ships built under U.S. flag, how they can be used in the future. I think that is a very good point and one that we need to make more often.

I do not understand how we have gone down also with our mariners. This would provide so many more positions in the whole merchant marine area that we could use so I hope—I am on the Armed Services Committee too and concerned with that so I think this is another angle we need to make sure people understand. We can benefit in a lot of ways. Thank you, Mr. Chairman.

Mr. LIPINSKI. Thank you. The Chair recognizes Ms. Cantwell.

Ms. CANTWELL. Thank you, Mr. Chairman, and I appreciate again the panelists' testimony today and the delicate balance that each of you represent. I have no doubt that that was a major feat to get everybody in the room to agree but, knowing the prime sponsor of this legislation and the tenacity she has, I am sure that will keep you together as this process moves forward.

One question I had, and obviously you touched on this briefly in the significant growth in the cruise ship industry that is going to happen, the amount of activity that we could see in the future obviously that we are trying to transfer to American cruise ships, how would you describe that though in the sense of timing?

I guess that is all of our questions is once this legislation was implemented, what kind of response have you gotten from the industry on what the timing would be for us to actually see some action on an American vessel? Any thoughts?

Mr. GOGERTY. We know that there is interest and maybe Terry can go further on this but there has been interest expressed privately. Nobody wants anyone else to know that they are seriously considering it but we have talked to people that say that if this legislation is serious, that the incentives are such, that they would consider this. So, Terry, maybe you——

Mr. TURNER. I would just like to concur with Bob's remarks. I think by industry standards relatively quickly we can see something in the water because of the nature of the ship, the interim ship.

Again, I think Bob hits the nail on the head when he says that no companies want to come out and say I am going to do this until actually there is an opportunity to get it done.

But we have had discussions with some of our operators and some of the people that have been in the business and there is major interest in this piece of legislation from their standpoint.

Ms. CANTWELL. But because of the way the language is drafted, there is nothing that would prohibit some of these companies from taking immediate action and pursuing this and actually generating an immediate benefit as far as workers, as far as construction is concerned?

Mr. TURNER. Right.

Ms. CANTWELL. Thank you. No other questions, Mr. Chairman.

Mr. LIPINSKI. Thank you. We have been joined at the witness table by Mr. John Stocker, the President of the Shipbuilders Council of America. I welcome you. I can appreciate your difficulty in getting here this morning with the heavy rainfall that we had.

We will be happy to have you give us your oral testimony at the present time and we will accept your written statement for the record.

STATEMENT OF JOHN STOCKER, PRESIDENT, SHIPBUILDERS COUNCIL OF AMERICA

Mr. STOCKER. Thank you, Mr. Chairman, and my apologies. I had to be at another event that got scheduled yesterday late at the same time as the opening of this hearing. You can appreciate it is difficult to be in two places at once unless you are Stan Mikita or the Chairman of this Subcommittee.

Mr. Chairman, I want to thank you——

Mr. LIPINSKI. The only person I ever saw be in the same place, two places at one time, was the guy that played for the Chicago Bears. His name was Gale Sayers.

Mr. STOCKER. This could go on for a while so——

Mr. LIPINSKI. Stan Mikita was good but he could not hold Bobby Hull's hockey stick.

Mr. STOCKER. The only thing this reveals is that at least one of us—no, never mind, I won't even get into that. Thank you, Mr. Chairman. Again, thank you for your forbearance this morning.

And I want to thank you on behalf of American Yards for the opportunity to comment on the two bills before you this morning, H.R. 3821, the United States Passenger Vessel Development Act and H.R. 3822, the United States Passenger Development Tax Act.

As you know, Mr. Chairman, the Shipbuilders Council is the national trade association for American shipyards, marine equipment manufacturers, and naval architects, and we recognize the fact that these bills are an attempt to revitalize the domestic passenger vessel market. We pledge our support to work with the Subcommittee to ensure that the legislation, in fact, achieves the goal of developing the domestic passenger vessel market.

My formal testimony, Mr. Chairman, goes into a review of some of the things that have been happening in the shipbuilding sector over the past few months, particularly in light of congressional and administration action.

Mr. Chairman, I also know that you and the Members of the Subcommittee are very well aware of the fact that we have been involved in negotiations on ending foreign shipbuilding subsidy practices and that those negotiations have unfortunately not produced a result with which we are very happy.

I think, as a result, we have to be very careful in looking at making changes in U.S. law. We do not want to open up access to the U.S. market prematurely and certainly not in the face of the problems that we have run into in responses from the Europeans, the Japanese and the Koreans to U.S. proposals on establishing market access principles.

That is what makes today's hearing and the subject of these two bills very important. Mr. Chairman, you know that the cruise ship market is one of the most heavily subsidized of all shipbuilding market segments.

The Europeans have been very successful using their subsidy programs to control that market. I know that the Members of this Subcommittee do not need to be reminded that all of the cruise vessels operating in the U.S. market, with the exception of two, are foreign-flag vessels built in foreign-subsidized shipyards, taking American taxpayers on very nice cruises.

Of course, the marketplace is very important to us because we believe that as we transition to commercial markets it will be in cruise ships that we will have to make a move because certainly those are the kinds of sophisticated and complex commercial vessels that our industry should be able to respond to fairly quickly in the coming years.

H.R. 3821 would permit foreign-built cruise vessels to enter the domestic market for a period of up to 12 months if the operator of that vessel enters into a letter of intent with the U.S. yard to replace the vessel.

The bill goes on to propose that a ship construction contract must be entered into within two years and that actual ship construction must be started within three years of the granting of the interim certificate.

Thus, the foreign-built vessel will have access to the U.S. market for more than three years before a U.S.-built vessel will be completed and brought into the market.

However, because of our concern relative to ensuring that the domestic market is not open to foreign subsidizers, we must be comfortable that the provisions in H.R. 3821 do not provide an opportunity for the clever or the greedy to take advantage of the intent of Congress in establishing a U.S. ship construction capability in the cruise market by seeking to bend the rules with the result of no new ship construction being undertaken..

As a result, we would propose that the relationship between certificate granting and construction contract performance be tightened. In addition, we believe that penalties should apply for those who do not place bona fide contracts.

We pledge to work with the Subcommittee in establishment of time lines that would meet the multiplicity of goals that you see before you and the ones that we know that the Subcommittee is trying to achieve.

The second bill, H.R. 3822, allows tax treatment changes for U.S. cruise ships built in the United States. We fully support any effort that is undertaken to encourage consumers to place orders for capital assets like vessels, such as ships, and we would support the passage of such legislation. This concludes my statement, Mr. Chairman, and I would be happy to respond to any questions.

[Statement of John Stocker may be found at end of hearing.]

Mr. LIPINSKI. Thank you very much. Congresswoman Unsoeld, do you have any questions for Mr. Stocker or for any other witness on this round?

Mrs. UNSOELD. I would just repeat to him my expression of desire to continue to work with all of the parties who would be potentially affected by this so that we can indeed have a bill out, moving to establish an American cruise ship industry.

Mr. LIPINSKI. Ms. Cantwell. Ms. Furse. The first observation I want to make is that this morning on the radio on a news broadcast I heard, there is a women's organization that was making complaints about the cruise ship industry, talking about how all the advertising caters to men to take cruises.

It is quite interesting to me this morning that we have three women Members over here on the Democratic side, and Ms. Fowler was here as well. I hope that the cruise industry heard this morning's complaint by this women's organization and also takes note of the attendance of the women Members of this Subcommittee.

As I look out into the audience too, the women are certainly extremely well represented this morning.

I have no questions for the witnesses. I simply would like to say that I appreciate all their testimony here this morning and I appreciate the attendance of the Members of this Subcommittee.

These are two pieces of legislation which I think aid and assist in creating jobs in this country. My main goal as the Subcommittee Chairman of Merchant Marine is to try to create jobs throughout this nation.

I think that the biggest problem that we face today is the erosion of our job base in this nation, not only union jobs and blue-collar jobs but the white-collar jobs, executive jobs, all types of jobs.

I think that we in government really have to look hard at this issue because I really believe the only entity big enough and comprehensive enough to do anything about it on a broad scale is the Federal Government.

Certainly free enterprise is the engine driving this economy. However, I think we are at a stage now where the Federal Government really has to take a hand in aiding and assisting free enterprise whether it be in the Merchant Marine industry or the shipbuilding industry or steel or automobiles.

The Federal Government does have to take a hand in creating jobs, and any legislation creating jobs for Americans is legislation that I am going to endorse and support and work vigorously to try to pass into law.

I sincerely compliment you on the effort that you have made with this legislation. I know it has taken a great deal of bargaining and discussing and persuading on your part to get a broad based support for this legislation.

I sincerely compliment you on your effort; you will have my very full support.

Mrs. UNSOELD. Thank you.

Mr. LIPINSKI. You are more than welcome. Is there anyone who wants to say anything in conclusion before we terminate this hearing? Would any members of the panel like to include anything?

Thank you all very much. The Subcommittee stands adjourned.

[Whereupon, at 11:00 a.m., the Subcommittee was adjourned; and the following was submitted for the record:]

I

103D CONGRESS
2D SESSION

H. R. 3821

To promote construction and operation of passenger vessels in the United States, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 9, 1994

Mrs. UNSOELD (for herself, Mr. STUDDS, Mr. LIPINSKI, Mr. DICKS, Mr. CANTWELL, Ms. DUNN, Mr. KRIEDLER, Mr. SWIFT, Mr. MANTON, Mr. BORSKI, Mr. HOYER, Mr. CUNNINGHAM, and Mr. JOHNSON of South Dakota) introduced the following bill; which was referred jointly to the Committees on Merchant Marine and Fisheries and Natural Resources

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A BILL

To promote construction and operation of passenger vessels in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "United States Passenger Vessel Development Act".

SEC. 2. PURPOSE.

The purpose of this Act is to promote construction and operation of United States flag passenger vessels in the United States.

SEC. 3. INTERIM COASTWISE PASSENGER TRADE ENDORSEMENT.

(a) ENDORSEMENT AUTHORIZED.—Chapter 121 of title 46, United States Code, is amended by inserting after section 12112 the following new section:

"§ 12113. Interim coastwise passenger trade endorsement

"(a) Before December 31, 2000, a certificate of documentation for a passenger vessel may be endorsed with an interim coastwise passenger trade endorsement, if the vessel is—

"(1) eligible for documentation under section 12102;

"(2) owned by, or demise chartered for at least 18 months to, a citizen of the United States for purposes of issuing a certificate of documentation with an interim coastwise passenger trade endorsement under section 2(e) of the Shipping Act, 1916 (46 App. U.S.C. 802(e));

"(3) at least 250 gross tons (as measured under chapter 143 of this title) and has at least 175 berths; and

"(4) not a ferry.

"(b) As a condition of issuing an interim coastwise passenger trade endorsement for a vessel, the Secretary shall require the owner or charterer of the vessel to enter

into one or more contracts for the construction in the United States of one or more vessels having a total berthing capacity that is at least 80 percent of the capacity of the vessel for which the endorsement is issued.

"(c) A vessel with a certificate of documentation with an interim coastwise passenger trade endorsement may be employed in the coastwise trade in the carriage of passengers.

"(d) On termination of a demise charter required under subsection (a)(2)(B) for a vessel, an interim coastwise passenger trade endorsement for the vessel may be continued for a period not to exceed 6 months on any terms and conditions that the Secretary of Transportation may prescribe.

"(e)(1) An interim coastwise passenger trade endorsement issued for a vessel under subsection (a) expires—

"(A) on the date that is 12 months after the date of issuance of the endorsement, if the owner or demise charter of the vessel fails to submit to the Secretary before the end of that 12-month period a letter that—

"(i) states the interest of the owner or demise charter, respectively, and a representative of a shipyard in the United States to enter into

a contract for the construction in the shipyard of at least one passenger vessel that has a total berthing capacity that is at least equivalent to 80 percent of the berthing capacity of the vessel for which the endorsement is issued; and

"(ii) is signed by the owner or demise charterer, respectively, and the representative;

"(B) on the date that is 24 months after the date of issuance of the endorsement, if the owner or demise charterer of the vessel does not enter into a contract before the end of that 24-month period for the construction in the United States of one or more passenger vessels described in subparagraph (A)(i);

"(C) on the date that is 3 years after the date of issuance of the endorsement, if construction of such a vessel under the contract is not begun before the end of that 3-year period; and

"(D) on the date that is 180 days after the date of delivery of a vessel for which construction is completed pursuant to the contract.

"(2) The Secretary may extend the period applicable under paragraph (1)(B) or (C), or both, for not more than 6 months.

"(f) An interim coastwise passenger trade endorsement for a vessel shall prohibit the operation of the vessel

in any trade that is served by another passenger vessel of at least 250 gross tons and having at least 175 berths that is documented under section 12106 of this title, unless the owner or charterer of the vessel so operated is also the owner of the other vessel having the endorsement.

"(g) Except as provided in this section, section 2113(b) of this title, or section 2(e) or 9(e) of the Shipping Act, 1916, a vessel with an interim coastwise passenger trade endorsement shall comply with all requirements applicable to a comparable passenger vessel that is otherwise documented under the laws of the United States.".

(b) CLERICAL AMENDMENT.—The table of sections at the beginning of chapter 121 of title 46, United States Code, is amended by inserting after the item relating to section 12112 the following:

"12113. Interim coastwise trade endorsement.".

(c) NOTICE TO SECRETARY OF REFLAGGING.—Section 9 of the Shipping Act, 1916 (46 App. U.S.C. 808) is amended—

(1) in subsection (c) by inserting "subsection (e)," after "Except as provided in"; and

(2) by adding at the end the following:

"(e) Notwithstanding subsection (c), a person may place under a foreign registry or operate under the authority of a foreign country, without approval of the Secretary

of Transportation, any vessel with an interim coastwise passenger trade endorsement under section 12113 of title 46, United States Code, if the person notifies the Secretary of that action—

"(1) before the 60-day period ending on the date that action is taken; and

"(2) within 12 months after—

"(A) the issuance of the interim coastwise passenger trade endorsement, or

"(B) the beginning of construction of the replacement vessels required for that issuance under section 12113 of title 46, United States Code.".

SEC. 4. SOLAS CONSTRUCTION STANDARDS.

Section 2113 of title 46, United States Code, is amended—

(1) by inserting "(a)" before "If"; and

(2) by adding at the end the following new subsection:

"(b) A documented vessel with an interim coastwise passenger trade endorsement—

"(1) is deemed to comply with parts B, C, and J of this title if the vessel meets the standards for passenger vessel construction for safety of life at sea issued under the International Maritime Organiza-

tion convention to which the United States is a party; and

"(2) shall be issued by the Secretary the appropriate inspection, load line, and tonnage certificates if that vessel meets those standards.".

SEC. 5. CITIZENSHIP FOR PURPOSES OF DOCUMENTATION.

Section 2 of the Shipping Act, 1916 (46 App. U.S.C. 802), is amended by adding at the end the following:

"(e) For purposes of issuing a certificate of documentation with an interim coastwise passenger trade endorsement or a coastwise endorsement for transporting passengers in the coastwise trade under chapter 121 of title 46, United States Code, the controlling interest in a corporation is deemed to be owned or demise chartered by citizens of the United States if at least 51 percent of its stock is vested in citizens of the United States free from any trust or fiduciary obligation in favor of any person not a citizen of the United States.".

SEC. 6. AMENDMENT TO TITLE XI OF THE MERCHANT MARINE ACT, 1936.

Section 1101(b) of the Merchant Marine Act, 1936 (46 App. U.S.C. 1271(b)) is amended by striking "passenger cargo" and inserting "passenger, cargo,".

SEC. 7. PERMITS FOR VESSELS ENTERING UNITS OF NATIONAL PARK SYSTEM.

(a) PRIORITY.—Notwithstanding any other provision of law, the Secretary of Commerce may not permit a person to operate a vessel in any unit of the National Park System except in accordance with the following priority:

(1) First, any person that will operate a vessel that is documented under the laws of, and the home port of which is located in, the United States.

(2) Second, any person that will operate a vessel—

(A) that is documented under the laws of a foreign country, and

(B) which on the date of the enactment of this Act is permitted to be so operated.

(3) Third, any person that will operate a vessel other than a vessel described in paragraph (1) or (2).

(b) REVOCATION OF PERMITS FOR FOREIGN-DOCUMENTED VESSELS.—The Secretary of Commerce shall revoke permission granted by the Secretary for the operation of a vessel documented under the laws of a foreign country in a unit of the National Park System, if—

(1) a person requests permission to operate a vessel documented under the laws of the United States in that unit;

(2) the permission may not be granted because of a limit on the number of permits that may be issued for that operation.

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103D CONGRESS
2D SESSION

H. R. 3822

To amend the Merchant Marine Act, 1936, and the Internal Revenue Code of 1986 to promote construction and operation of passenger vessels in the United States, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 9, 1994

Mrs. UNSOELD (for herself, Mr. STUDDS, Mr. LIPINSKI, Mr. DICKS, Ms. CANTWELL, Ms. DUNN, Mr. KRIEDLER, Mr. SWIFT, Mr. MANTON, Mr. BORSKI, Mr. HOYER, Mr. CUNNINGHAM, and Mr. JOHNSON of South Dakota) introduced the following bill; which was referred jointly to the Committees on Merchant Marine and Fisheries and Ways and Means

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A BILL

To amend the Merchant Marine Act, 1936, and the Internal Revenue Code of 1986 to promote construction and operation of passenger vessels in the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "United States Passenger Vessel Development Tax Act".

SEC. 2. PURPOSE.

The purpose of this Act is to provide measures to encourage investment in new passenger vessels documented under the laws of the United States.

SEC. 3. CHANGES TO CAPITAL CONSTRUCTION FUND.

(a) EXPANDING THE CCF PROGRAM TO PASSENGER VESSELS IN DOMESTIC TRADES.—

(1) Paragraph (2) of section 607(k) of the Merchant Marine Act, 1936 (46 App. U.S.C. 1177) is amended by adding at the end thereof the following new flush sentence:

"In the case of a passenger vessel, subparagraph (C) (and the second sentence of subsection (a)) shall be treated as including a reference to all domestic trades."

(2) Paragraph (1) of section 607(k) of such Act (defining eligible vessel) is amended by adding at the end the following: "For purposes of subparagraph (B), documentation under section 12113 of title 46, United States Code (as added by H.R. 3821 of the 103d Congress), shall be treated as documentation under the laws of the United States."

(b) TREATMENT OF FUND EARNINGS.—

(1) Section 607 of such Act is amended by adding at the end thereof the following new subsection:

"(n) TAXATION OF EARNINGS ON INVESTMENTS IN CERTAIN FUNDS.—

"(1) IN GENERAL.—In the case of a capital construction fund to which this subsection applies, the tax imposed by chapter 1 of the Internal Revenue Code of 1986 shall be determined—

"(A) by excluding from gross income the taxable earnings from the investment and reinvestment of amounts held in such capital construction fund, and

"(B) by increasing the tax imposed by such chapter by the product of the amount of such taxable earnings and the highest rate of tax specified in section 1 (section 11 in the case of a corporation) of such Code.

"(2) MAXIMUM RATE ON CAPITAL GAINS.—If there is a net capital gain on amounts held in a capital construction fund to which this subsection applies, the rate of tax taken into account under paragraph (1)(B) with respect to such gain shall not exceed the rate applicable to net capital gain under section 1(h) or 1201(a) of such Code, as the case may be.

"(3) FUNDS TO WHICH SUBSECTION APPLIES.—This subsection shall apply to any capital

construction fund into which amounts are deposited by reason of the operation of a passenger vessel.

"(4) COORDINATION WITH DEDUCTION FOR NET OPERATING LOSSES.—Any earnings excluded from gross income under paragraph (1) shall be excluded in determining taxable income under section 172(b)(2) of such Code.

"(5) TAXABLE EARNINGS.—For purposes of this section, the term 'taxable earnings' means net earnings determined with the following modifications:

"(A) There shall be excluded interest income exempt from taxation under section 103 of such Code.

"(B) If the person maintaining the fund is a corporation, there shall be excluded the percentage applicable under section 243(a)(1) of such Code of any dividend received by the fund with respect to which such person would (but for paragraph (1)(A)) be allowed a deduction under section 243 of such Code.

"(C) Losses from the sale or exchange of capital assets shall be allowed only to the extent of gains from such sales or exchanges.

"(D) There shall be excluded—

"(i) earnings on amounts deposited in the fund which are attributable to vessels documented under the laws of the United States for operation in the fisheries of the United States, and

"(ii) earnings on earnings described in clause (i)."

(2) Subparagraph (D) of section 607(b)(1) of such Act is amended by inserting "reduced by the tax (if any) imposed on such receipts under subsection (n)" after "in such fund".

(3) Subparagraph (C) of section 607(d)(1) of such Act is amended by inserting "except as provided in subsection (n)," before "the earnings".

(4) Paragraph (2) of section 607(e) of such Act is amended by striking "and" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ", and", and by adding at the end thereof the following new subparagraph:

"(E) in the case of any capital construction fund to which subsection (n) applies, the taxable earnings (as defined in such subsection) of such fund."

(5) Paragraph (3) of section 607(e) of such Act is amended by adding at the end thereof the following new flush sentence:

"In the case of any capital construction fund to which subsection (n) applies, the taxable earnings (as defined in such subsection) of such fund shall not be taken into account under this paragraph."

(6) Paragraph (4) of section 607(e) of such Act is amended by adding at the end thereof the following new flush sentence:

"In the case of any capital construction fund to which subsection (n) applies, the taxable earnings (as defined in such subsection) of such fund shall not be taken into account under subparagraph (B), and subparagraphs (C) and (E) shall not apply."

(7) Paragraph (1) of section 607(f) of such Act is amended by striking "or" at the end of subparagraph (B), by striking the period at the end of subparagraph (C) and inserting ", or", and by inserting after subparagraph (C) the following new subparagraph:

"(D) the payment of the tax (if any) imposed by subsection (n)."

(c) TREATMENT OF CERTAIN LEASE PAYMENTS.—

(1) Paragraph (1) of section 607(f) of such Act is amended by striking "or" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ", or", and by inserting after subparagraph (D) the following new subparagraph:

"(E) the payment of amounts which reduce the principal amount (as determined under regulations) of a qualified lease of a passenger vessel which is a qualified vessel."

(2) Paragraph (4) of section 607(g) of such Act is amended by inserting "(or to reduce the principal amount of any qualified lease a passenger vessel which is a qualified vessel)" after "indebtedness".

(3) Subsection (k) of section 607 of such Act is amended by adding at the end thereof the following new paragraph:

"(10) The term 'qualified lease' means any lease with a term of at least 5 years."

(d) COMPUTATION OF INTEREST WITH RESPECT TO NONQUALIFIED WITHDRAWALS.—Paragraph (3) of section 607(h) of such Act is amended by adding at the end the following flush sentence:

"In the case of a withdrawal from a fund to which subsection (n) applies, in lieu of applying subpara-

graph (C), no addition to the tax shall be payable under section 6651 of such Code and interest on the amount of the additional tax attributable to any item referred to in subparagraph (A) or (B) shall be paid in accordance with section 6601 of such Code."

(e) PASSENGER VESSEL DESIGN AND ENGINEERING COSTS MAY BE PAID FROM FUNDS.—Paragraph (1) of section 607(f) of such Act is further amended by striking "or" at the end of subparagraph (D), by striking the period at the end of subparagraph (E) and inserting ", or", and by inserting after subparagraph (E) the following new subparagraph:

"(F) the design and engineering of any construction or reconstruction of a qualified vessel which is a passenger vessel."

(f) EXPANSION OF PERMITTED INVESTMENTS BY PASSENGER VESSEL FUNDS.—Subsection (c) of section 607 of such Act is amended by inserting "(and, in the case of a fund to which subsection (n) applies, other income-producing assets (including accounts receivable)" after "interest-bearing securities".

(g) WITHDRAWALS PERMITTED FOR CERTAIN PRIOR EXPENDITURES.—Paragraph (1) of section 607(f) of such Act is further amended by striking "or" at the end of subparagraph (E), by striking the period at the end of sub-

paragraph (F) and inserting ", or", and by inserting after subparagraph (F) the following new subparagraph:

"(G) the reimbursement of the person maintaining the fund for amounts expended by such person in the reconstruction of any vessel for which an interim certificate of documentation was issued under section 12113 of title 46, United States Code (as added by H.R. 3821 of the 103d Congress)."

(h) AMOUNTS IN CAPITAL CONSTRUCTION FUND BY REASON OF INTERIM CERTIFICATE VESSEL REQUIRED TO BE COMMITTED TO CONSTRUCTION OF NEW QUALIFIED VESSEL.—Section 607 of the Merchant Marine Act, 1936, is amended by adding at the end the following new subsection:

"(o) TAX ON INTERIM CERTIFICATE VESSEL DEPOSITS IN FUND WHICH ARE NOT COMMITTED TO NEW CONSTRUCTION, ETC.—

"(1) TAX IMPOSED IF CONTRACT FOR CONSTRUCTION OF QUALIFIED VESSEL NOT ENTERED INTO WITHIN 3 YEARS.—If any person deposits any amount into a capital construction fund by reason of the treatment provided by the last sentence of subsection (k)(1), and such person fails to enter into a qualified contract within the period of 3 years after

the date the certificate referred to in such sentence was issued—

"(A) such fund shall, at the close of such period, cease to be treated as a capital construction fund and shall be treated as distributing all amounts in such fund to such person, and

"(B) such person's tax imposed by chapter 1 of the Internal Revenue Code of 1986 for the taxable year in which such period ends shall be determined—

"(i) by excluding from gross income the amount treated as distributed under subparagraph (A), and

"(ii) by increasing the tax imposed by such chapter by the product of such amount and the highest rate of tax specified in section 1 (section 11 in the case of a corporation) of such Code.

"(2) TAX ON WITHDRAWALS NOT USED IN FURTHERANCE OF CONSTRUCTION CONTRACT.—If there is a withdrawal from a fund referred to in paragraph (1) which is not in furtherance of entering into a qualified contract within such 3 year period, such withdrawal shall not be taxed as otherwise pro-

vided in this section and such person's tax imposed by chapter 1 of such Code for the taxable year in which such withdrawal is made shall be determined—

"(A) by excluding such withdrawal from gross income, and

"(B) by increasing the tax imposed by such chapter by the product of the amount of such withdrawal and the highest rate of tax specified in section 1 (section 11 in the case of a corporation) of such Code.

"(3) QUALIFIED CONTRACT.—For purposes of this subsection, the term 'qualified contract' means any contract for the construction of a new qualified vessel the consideration for which will be paid from the capital construction fund referred to in paragraph (1).

"(4) COORDINATION WITH DEDUCTION FOR NET OPERATING LOSSES.—Any amount excluded from gross income under this subsection shall be excluded in determining taxable income under section 172(b)(2) of such Code."

SEC. 4. AMENDMENTS OF INTERNAL REVENUE CODE OF 1986.

(a) TREATMENT OF FUND EARNINGS.—

(1) Section 7518 of the Internal Revenue Code of 1986 is amended by redesignating subsections (h) and (i) as subsections (j) and (k), respectively, and by inserting after subsection (g) the following new subsection:

"(h) TAXATION OF EARNINGS ON INVESTMENT IN CERTAIN FUNDS.—

"(1) IN GENERAL.—In the case of a capital construction fund to which this subsection applies, the tax imposed by chapter 1 shall be determined—

"(A) by excluding from gross income the earnings from the investment and reinvestment of amounts held in such capital construction fund, and

"(B) by increasing the tax imposed by such chapter by the product of the amount of such earnings and the highest rate of tax specified in section 1 (section 11 in the case of a corporation).

"(2) MAXIMUM RATE ON CAPITAL GAINS.—If there is a net capital gain on amounts held in a capital construction fund to which this subsection applies, the rate of tax taken into account under paragraph (1)(B) with respect to such gain shall not ex-

ceed the rate applicable to net capital gain under section 1(h) or 1201(a), as the case may be.

"(3) FUNDS TO WHICH SUBSECTION APPLIES.—This subsection shall apply to any capital construction fund into which amounts are deposited by reason of the operation of a passenger vessel.

"(4) COORDINATION WITH DEDUCTION FOR NET OPERATING LOSSES.—Any earnings excluded from gross income under paragraph (1) shall be excluded in determining taxable income under section 172(b)(2).

"(5) TAXABLE EARNINGS.—For purposes of this section, the term 'taxable earnings' means net earnings determined with the following modifications:

"(A) There shall be excluded interest income exempt from taxation under section 103.

"(B) If the person maintaining the fund is a corporation, there shall be excluded the percentage applicable under section 243(a)(1) of any dividend received by the fund with respect to which such person would (but for paragraph (1)(A)) be allowed a deduction under section 243.

"(C) Losses from the sale or exchange of capital assets shall be allowed only to the extent of gains from such sales or exchanges.

"(D) There shall be excluded—

"(i) earnings on amounts deposited in the fund which are attributable to vessels documented under the laws of the United States for operation in the fisheries of the United States, and

"(ii) earnings on earnings described in clause (i)."

(2) Subparagraph (D) of section 7518(a)(1) of such Code is amended by inserting "reduced by the tax (if any) imposed on such receipts under subsection (h)" after "in such fund".

(3) Subparagraph (C) of section 7518(c)(1) of such Code is amended by inserting "except as provided in subsection (h)," before "the earnings".

(4) Paragraph (2) of section 7518(d) of such Code is amended by striking "and" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ", and", and by adding at the end thereof the following new subparagraph:

"(E) in the case of any capital construction fund to which subsection (h) applies, the taxable earnings (as defined in such subsection) of such fund."

(5) Paragraph (3) of section 7518(d) of such Code is amended by adding at the end thereof the following new flush sentence:

"In the case of any capital construction fund to which subsection (h) applies, the taxable earnings (as defined in such subsection) of such fund shall not be taken into account under this paragraph."

(6) Paragraph (4) of section 7518(d) of such Code is amended by adding at the end thereof the following new flush sentence:

"In the case of any capital construction fund to which subsection (h) applies, the taxable earnings (as defined in such subsection) of such fund shall not be taken into account under subparagraph (B), and subparagraphs (C) and (E) shall not apply."

(7) Paragraph (1) of section 7518(g) of such Code is amended by striking "subsection (h)" and inserting "subsection (i)".

(8) Paragraph (1) of section 7518(e) of such Code is amended by striking "or" at the end of subparagraph (B), by striking the period at the end of

subparagraph (C) and inserting ", or", and by inserting after subparagraph (C) the following new subparagraph:

"(D) the payment of the tax (if any) imposed by subsection (h)."

(b) TREATMENT OF CERTAIN LEASE PAYMENTS.—

(1) Paragraph (1) of section 7518(e) of such Code is amended by striking "or" at the end of subparagraph (C), by striking the period at the end of subparagraph (D) and inserting ", or", and by inserting after subparagraph (D) the following new subparagraph:

"(E) the payment of amounts which reduce the principal amount (as determined under regulations) of a qualified lease of a passenger vessel which is a qualified vessel."

(2) Paragraph (4) of section 7518(f) of such Code is amended by inserting "(or to reduce the principal amount of any qualified lease of a passenger vessel which is a qualified vessel)" after "indebtedness".

(c) COMPUTATION OF INTEREST WITH RESPECT TO NONQUALIFIED WITHDRAWALS.—Paragraph (3) of section 7518(g) of such Code is amended by adding at the end the following flush sentence:

"In the case of a withdrawal from a fund to which subsection (n) applies, in lieu of applying subparagraph (C), no addition to the tax shall be payable under section 6651 and interest on the amount of the additional tax attributable to any item referred to in subparagraph (A) or (B) shall be paid in accordance with section 6601."

(d) PASSENGER VESSEL DESIGN AND ENGINEERING COSTS MAY BE PAID FROM FUNDS.—Paragraph (1) of section 7518(e) of such Code is further amended by striking "or" at the end of subparagraph (D), by striking the period at the end of subparagraph (E) and inserting ", or", and by inserting after subparagraph (E) the following new subparagraph:

"(F) the design and engineering of any construction or reconstruction of a qualified vessel which is a passenger vessel."

(e) EXPANSION OF PERMITTED INVESTMENTS BY PASSENGER VESSEL FUNDS.—Paragraph (2) of section 7518(b) of such Code is amended by inserting "(and, in the case of a fund to which subsection (n) applies, other income-producing assets (including accounts receivable)" after "interest-bearing securities".

(f) WITHDRAWALS PERMITTED FOR CERTAIN PRIOR EXPENDITURES.—Paragraph (1) of section 7518(e) of

such Code is further amended by striking "or" at the end of subparagraph (E), by striking the period at the end of subparagraph (F) and inserting ", or", and by inserting after subparagraph (F) the following new subparagraph:

"(G) the reimbursement of the person maintaining the fund for amounts expended by such person in the reconstruction of any vessel for which an interim certificate of documentation was issued under section 12113 of title 46, United States Code (as added by H.R. 3821 of the 103d Congress)."

(g) AMOUNTS IN CAPITAL CONSTRUCTION FUND BY REASON OF INTERIM CERTIFICATE VESSEL REQUIRED TO BE COMMITTED TO CONSTRUCTION OF NEW QUALIFIED VESSEL.—Section 7518 of such Code is amended by inserting after subsection (h) the following new subsection:

"(i) TAX ON INTERIM CERTIFICATE VESSEL DEPOSITS IN FUND WHICH ARE NOT COMMITTED TO NEW CONSTRUCTION, ETC.—

"(1) TAX IMPOSED IF CONTRACT FOR CONSTRUCTION OF QUALIFIED VESSEL NOT ENTERED INTO WITHIN 3 YEARS.—If any person deposits any amount into a capital construction fund by reason of the treatment provided by the last sentence of section 607(k)(1) of the Merchant Marine Act, 1936,

and such person fails to enter into a qualified contract within the period of 3 years after the date the certificate referred to in such sentence was issued—

"(A) such fund shall, at the close of such period, cease to be treated as a capital construction fund and shall be treated as distributing all amounts in such fund to such person, and

"(B) such person's tax imposed by chapter 1 for the taxable year in which such period ends shall be determined—

"(i) by excluding from gross income the amount treated as distributed under subparagraph (A), and

"(ii) by increasing the tax imposed by chapter 1 by the product of such amount and the highest rate of tax specified in section 1 (section 11 in the case of a corporation).

"(2) TAX ON WITHDRAWALS NOT USED IN FURTHERANCE OF CONSTRUCTION CONTRACT.—If there is a withdrawal from a fund referred to in paragraph (1) which is not in furtherance of entering into a qualified contract within such 3 year period, such withdrawal shall not be taxed as otherwise pro-

vided in this section and such person's tax imposed by chapter 1 for the taxable year in which such withdrawal is made shall be determined—

"(A) by excluding such withdrawal from gross income, and

"(B) by increasing the tax imposed by chapter 1 by the product of the amount of such withdrawal and the highest rate of tax specified in section 1 (section 11 in the case of a corporation).

"(3) QUALIFIED CONTRACT.—For purposes of this subsection, the term 'qualified contract' means any contract for the construction of a new qualified vessel the consideration for which will be paid from the capital construction fund referred to in paragraph (1).

"(4) COORDINATION WITH DEDUCTION FOR NET OPERATING LOSSES.—Any amount excluded from gross income under this subsection shall be excluded in determining taxable income under section 172(b)(2)."

(h) OTHER CHANGES.—

(1) Subsection (j) of section 7518 of such Code is amended by striking "this section." and inserting

"the United States Passenger Vessel Development Tax Act."

(2) Subparagraph (B) of section 543(a)(1) of such Code is amended to read as follows:

"(B) interest on amounts set aside in a capital construction fund under section 607 of the Merchant Marine Act, 1936 (46 App. U.S.C. 1177), or in a construction reserve fund under section 511 of such Act (46 App. U.S.C. 1161),".

(3) Subsection (c) of section 56 is amended by striking paragraph (2) and by redesignating paragraph (3) as paragraph (2).

SEC. 5. 3-YEAR RECOVERY PERIOD FOR UNITED STATES FLAG PASSENGER VESSELS.

(a) IN GENERAL.—Subparagraph (A) of section 168(e)(3) of the Internal Revenue Code of 1986 is amended by striking "and" at the end of clause (i), by striking the period at the end of clause (ii) and inserting ", and", and by adding at the end thereof the following:

"(iii) any eligible vessel (as defined in section 607(k)(1) of the Merchant Marine Act, 1936) which is a passenger vessel, but only if the original use of such vessel and containers commences with the taxpayer."

(b) MINIMUM TAX TREATMENT.—

(1) Subparagraph (B) of section 56(a)(1) of such Code is amended by inserting before the period "or in paragraph (3)(A)(iii) of section 168(e)".

(2) Clause (v) of section 56(g)(4)(A) of such Code is amended by inserting "or in paragraph (3)(A)(iii) of section 168(e)" after "section 168(f)".

SEC. 6. MODIFICATION OF LIMITATIONS ON DEDUCTIONS FOR ATTENDANCE AT CONVENTIONS, ETC. ON CRUISE SHIPS.

(a) ONLY HOME PORT OF CRUISE SHIP MUST BE IN UNITED STATES OR POSSESSIONS.—Subparagraph (B) of section 274(h)(2) of the Internal Revenue Code of 1986 (relating to conventions on cruise ships) is amended to read as follows:

"(B) the home port of such cruise ship is located in the United States or a possession of the United States."

(b) REPEAL OF $2,000 LIMITATION.—Paragraph (2) of section 274(h) of such Code is amended by striking the last sentence.

(c) ONLY 1 REPORTING REQUIREMENT.—Subparagraph (A) of section 274(h)(5) of such Code is amended by striking "and" at the end and inserting "or".

(d) INTERIM DOCUMENTATION TREATED AS REGISTRATION.—Paragraph (2) of section 274(h) of such

Code is amended by adding at the end thereof the following flush sentence:

"For purposes of subparagraph (A), documentation under section 12113 of title 46, United States Code (as added by H.R. 3821 of the 103d Congress), shall be treated as registration in the United States."

SEC. 7. EMPLOYER INCENTIVES FOR TRAVEL AWARDS.

(a) CREDIT FOR CERTAIN TRAVEL AWARDS.—

(1) IN GENERAL.—Subpart B of part IV of subchapter A of chapter 1 of the Internal Revenue Code of 1986 is amended by adding at the end thereof the following new section:

"SEC. 30A. EMPLOYEE AWARDS FOR TRAVEL ON DOMESTIC CRUISE SHIPS.

"(a) GENERAL RULE.—In the case of an employer, there shall be allowed as a credit against the tax imposed by this section an amount equal to 10 percent of the amount paid or incurred by the taxpayer as a qualified travel award for an employee of the taxpayer.

"(b) MAXIMUM CREDIT.—The credit allowed by subsection (a) for awards made to an employee during the taxable year shall not exceed $200.

"(c) QUALIFIED TRAVEL AWARD.—For purposes of this section, the term 'qualified travel award' means any

award in recognition of an achievement by an employee for travel on any cruise ship—

"(1) which is registered in the United States, and

"(2) the home port of which is located in the United States or a possession of the United States.

For purposes of paragraph (1), documentation under section 12113 of title 46, United States Code (as added by H.R. 3821 of the 103d Congress), shall be treated as registration in the United States."

"(d) APPLICATION WITH OTHER CREDITS.—The credit allowed by subsection (a) for any taxable year shall not exceed the excess (if any) of—

"(1) the regular tax for the taxable year reduced by the sum of the credits allowable under subpart A and sections 27, 28, 29, and 30, over

"(2) the tentative minimum tax for the taxable year."

(2) CLERICAL AMENDMENT.—The table of sections for such subpart B is amended by adding at the end thereof the following new item:

"Sec. 30A. Employee awards for travel on domestic cruise ships."

(b) REDUCTION OF DEDUCTION FOR TRAVEL ON FOREIGN CRUISE SHIPS.—Subsection (m) of section 274 of such Code (relating to additional limitations on travel

expenses) is amended by adding at the end the following new paragraph:

"(3) FOREIGN CRUISE SHIPS.—

"(A) IN GENERAL.—The amount allowable as a deduction under this chapter for expenses incurred for transportation on any foreign cruise ship shall not exceed 90 percent of the amount of such expenses which would (but for this paragraph) be allowable as a deduction under this chapter.

"(B) FOREIGN CRUISE SHIP.—For purposes of subparagraph (A), the term 'foreign cruise ship' means any cruise ship which does not meet the requirements of subparagraphs (A) and (B) of section 274(h)(2)."

SEC. 8. EFFECTIVE DATES.

(a) IN GENERAL.—Except as otherwise provided in this section, the amendments made by this Act shall apply to taxable years beginning after the date of the enactment of this Act.

(b) DEFINITION OF QUALIFIED VESSEL.—The amendments made by section 3(a) shall apply for purposes of determining whether any withdrawal made after December 31, 1992, is a qualified withdrawal (within the

meaning of section 607(f) of the Merchant Marine Act, 1936, as in effect after such amendments).

(c) TAXATION OF EARNINGS.—The amendments made by sections 3(b) and 4(a) shall apply to earnings after December 31, 1992, in taxable years ending after such date.

(d) CHANGES IN COMPUTATION OF INTEREST.—The amendments made by sections 3(d) and 4(c) shall apply to withdrawals made after December 31, 1992.

(e) QUALIFIED LEASES.—The amendments made by sections 3(c) and 4(b) shall apply to leases in effect on, or entered into after, December 31, 1992.

(f) DEPRECIATION.—The amendments made by section 5 shall apply to property placed in service after December 31, 1992, in taxable years ending after such date.

(g) EFFECTIVE DATE.—The amendments made by section 6 shall apply to cruises beginning after the date of the enactment of this Act.

○

ONE HUNDRED THIRD CONGRESS

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April 11, 1994

BACKGROUND MEMO

TO : MEMBERS, SUBCOMMITTEE ON MERCHANT MARINE

FROM : WILLIAM O. LIPINSKI, CHAIRMAN

SUBJ : H.R. 3821, THE UNITED STATES PASSENGER VESSEL DEVELOPMENT ACT & H.R. 3822, THE UNITED STATES PASSENGER VESSEL DEVELOPMENT TAX ACT.

On April 13, 1994, at 10:00 a.m. in 1334 Longworth House Office Building, the Subcommittee on Merchant Marine will hold a hearing on H.R. 3821 and H.R. 3822, introduced on February 9, 1994 by Congresswoman Unsoeld for herself and Representatives Studds, Lipinski, Dicks, Cantwell, Dunn, Kriedler, Swift, Manton, Borski, Hoyer, Cunningham, and Johnson of South Dakota.

The Subcommittee has invited representatives from the following industry organizations to present testimony: the National Cruise Ship Alliance, Seafarers International Union, the Shipbuilders Council of America, the International Council of Cruise Lines, the Passenger Vessel Association, and the Port of Tampa Bay.

The legislation is intended to promote the construction and operation of U.S.-flag cruise vessels. H.R. 3821 establishes terms and conditions allowing foreign-built vessels to operate as interim U.S.-flag vessels if the operator agrees to contract for a U.S-built replacement vessel. H.R. 3822 amends certain Capital Construction Fund (CCF) and Internal Revenue Service (IRS) provisions to stimulate the growth of the U.S.-flag cruise industry.

H.R. 3821 was jointly referred to the Committee on Merchant Marine and Fisheries and the Committee on Natural Resources. H.R. 3822 was jointly referred to the Committee on Merchant Marine and Fisheries and the Committee on Ways and Means.

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H.R. 3821, The United States Passenger Vessel Development Act

According to the International Council of Cruise Lines, there were approximately 38 cruise lines operating 129 vessels in North America in 1992. Approximately 95% of those vessels - which represents 98% of the North American passenger capacity - are under foreign registry. In 1992, over 4 million people took cruise vacations generating roughly $5 billion in revenue. These figures are expected to double by the year 2000. Currently, foreign-flag cruise vessels enjoy 99% of those revenues and pay little if any U.S. corporate income tax.

H.R. 3821 permits U.S.-citizen companies (USCC) operating foreign-built vessels interim access to coastwise routes.

To qualify for this temporary coastwise certification, the vessels must be eligible for documentation under current U.S. regulations and of at least 250 gross tons with overnight accommodations for at least 175 passengers. A condition to obtaining the interim coastwise endorsement will be that a foreign-flag vessel must be reflagged as a U.S.-vessel, thereby triggering all the U.S. manning requirements.

The company must enter into a signed contract for construction of a U.S.-built vessel within 24 months of certification. The vessel must have at least 80% of the capacity of the interim vessel.

While foreign ownership interest of U.S.-flag cruise vessel operations cannot exceed 49%, interim vessels operated under charter to a U.S. company may be 100% foreign-owned.

Interim vessels would be required to meet international safety of life at sea (SOLAS) construction standards established by the International Maritime Organization (IMO). Newly constructed vessels would be required to meet U.S. standards. The U.S. Coast Guard is conducting a review of U.S. regulations to bring them in line with SOLAS. The Subcommittees on Merchant Marine and Coast Guard held a joint hearing on this issue last session (see committee hearing document 103-50) and plan on holding a second hearing later this spring.

H.R. 3821 also establishes priority preference for U.S.-flag vessels to enter National Park Service marine sites (e.g. Glacier Bay, Alaska). Currently, all deep-draft cruise vessel permits are held by foreign-flag operators.

Ferries are not eligible for the program.

H.R. 3822, The United States Passenger Vessel Development Tax Act

The cruise industry is at a competitive disadvantage in the convention and seminar industry. Corporations and participants do not receive the same tax benefits for meetings and conventions on cruise vessels that they receive for similar events at U.S. hotels and convention centers. The convention/meeting market earns roughly $57 billion in annual revenues. The cruise industry generates roughly $5 billion annually, less than 10% of the land-based market.

H.R. 3822 removes the annual per person deduction limit on meetings held on U.S.-flag vessels and allows for deductions on trips between U.S. and foreign ports. It also removes IRS documentation requirements considered to be redundant.

A limited tax credit for an employer would be created for awards purchased on U.S. flag vessels and the corporate deduction for incentive cruises shall not exceed 90% for foreign-flag cruises.

The legislation permits the use of existing CCF money for investment in U.S.-flag cruise ships and raises foreign corporate ownership limits from 25% to 49%.

It will also permit depreciation of U.S.-flag cruise vessels over a three year period in order to create parity with foreign-flag operations. The current depreciation period is ten years. Investment income earned from CCF would be taxed to offset the accelerated depreciation. Currently, CCF deposits are tax-deferred.

The CCF program would be expanded to allow cruise vessels operating in the coastwise trade to make deposits and qualified withdrawals. Currently CCF funds must be used to construct vessels for use in international or non-contiguous commerce. The bill permits the use of CCF deposits for leasing a passenger vessel and the use of qualified withdrawals for designing a passenger vessel.

Issues

- What impact will these bills have on the domestic cabotage trade?

- How can we be assured that foreign-flag cruise lines with interim certificates will build replacement ships in U.S. yards? How many vessels can be expected by the end of the decade?

- What revenues can the U.S. expect to gain from these bills? Would there be any losses for Florida or other areas?

- Will cruise ships be given an unfair advantage over other ships by only having to comply with SOLAS? How will the Coast Guard implement this provision?

- What cruise lines will enter the Port of Seattle as a result of these bills? What impact will there be on the Florida ports?

- What advantages will these bills give foreign-flag cruise ships over U.S. cruise vessels? (e.g. the Hawaii lines)

- Should there be a U.S.-only repair or rebuild provision for interim vessels?

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TESTIMONY IN SUPPORT OF H.R. 3821 AND H.R. 3822

Presented by Robert E. Gogerty
on behalf of the National Cruise Ship Alliance to

The Honorable William Lipinski, Chairman, and Members
Merchant Marine and Fisheries Subcommittee

As presented, April 13, 1994

April 13, 1994

Mr. Chairman and Members of the Committee:

It is with great pleasure that I present to you testimony on behalf of the National Cruise Ship Alliance in support of the Passenger Vessel Development Act (H.R. 3821) and the Passenger Vessel Development Tax Act (H.R. 3822), Representative Jolene Unsoeld's proposal to facilitate the establishment of a U.S. cruise ship industry.

The National Cruise Ship Alliance includes all the stakeholders central to the establishment of a U.S.-flag cruise ship industry— business, government and labor representatives. After years of fragmented efforts to stimulate a U.S.-flag industry, with diverse interests often working at odds with one another, today marks the first time such a broad range of concerns has joined together to work for the common goal of a U.S.-flag industry.

The National Alliance has met with chambers of commerce, port authorities, shipyards, elected officials and maritime interests in Boston; New York; Philadelphia; Baltimore; Washington, D.C.; New Orleans; Galveston; San Diego; San Francisco and Seattle; and has been in close contact with representatives from another half dozen cities. This extensive consultation has led us to the clear conclusion that there has never been a better time to establish a U.S. cruise industry.

Internationally, the cruise industry has sustained an average annual growth rate of 9.3% since 1980. By the year 2000, this figure is expected to double, which would yield annual revenues of nearly $9 billion. Yet, while 85% of all cruise passengers are Americans, the industry is almost entirely foreign-owned and operated. We believe Representative Unsoeld's proposal will create:

* Thousands of American jobs

* Investment opportunities in a market with proven economic vitality

* A chance to diversify port city economies around our nation

THE PAST EFFORT TO CAPTURE MARKET OPPORTUNITIES

The National Alliance grew out of efforts to attract cruise lines to the Northwest. Community leaders in Seattle have long recognized that cruise ships represent an opportunity to diversify and strengthen the region's economy. Our neighbor to the north, Vancouver B.C., saw 236 cruise ship sailings in 1993, which in that year alone yielded an estimated economic benefit of $120 million dollars to the B.C. economy. By comparison, Seattle saw only 12 sailings. The irony of this disparity is that over half of the passengers sailing from Vancouver fly into Seattle-Tacoma International Airport and are immediately bussed north to Canada.

There can be little doubt that the economic vitality fostered by cruise ships in Vancouver has far-reaching impacts upon the region's economy. The March 2, 1994, New York Journal of Commerce reports "The port [of Vancouver] has announced support for a $540 million casino and cruise terminal... with profits to be used to help pay for doubling the Port of Vancouver's container capacity." (This was of great interest to our community as we have enjoyed strong trade relations in the cargo shipping, if not cruise, business.)

Historically, our strategy to remedy this disparity was to secure a Puerto Rico-type exemption from the Passenger Services Act (PSA), a law which prohibits foreign-flag ships from transporting passengers consecutively between two U.S. ports. As a result of the PSA, sailings to Alaska on vessels owned by major operators, such as Holland America or Princess Cruises, must depart from a foreign port.

In hindsight, our approach was overly parochial. Many U.S. maritime

interests expressed concern that changing the Passenger Services Act would not promote American jobs and long-term economic development. There were additional concerns that to change the PSA would lead to changes in the Jones Act, giving foreign-flag cargo carriers unrestricted access to American markets.

In the bigger picture, the real problem is not the Passenger Services Act, but a lack of major U.S.-flag cruise vessels. Representative Jolene Unsoeld's proposal rightly shifts the cruise ship debate from *how we can change the Passenger Services Act* to *how we can develop a U.S. industry*. Consider the following:

* 85% of the 4.8 million passengers sailing annually in overnight service from U.S. ports are American and that's only a fraction of the U.S. market still to be tapped.

* Only two U.S.-flag ocean-going cruise ships sail the ocean today, both built in 1951 and deployed solely in Hawaii for inter-island cruises.

* Aside from these two ships, every major cruise ship is foreign-built and operated, although 85% of the world's foreign-flag fleet works out of U.S. ports.

In other words, there is a strong American market served almost exclusively by foreign interests. Our nation arrived at this point through a confluence of complex factors. For example, until recently, there could be no shipboard gaming on U.S.-flag vessels. Many industry owners have preferred to operate foreign-flag vessels which allow gaming—a lucrative component of the cruise industry. Beyond this, ship building technology has progressed faster overseas, foreign yards have enjoyed government subsidies, and in the past, low foreign wage rates have made it difficult for our country to compete.

PROVIDING A LEVEL PLAYING FIELD

Much of this has changed, however. With passage of Public Law 251 (by the 102nd Congress), federal law now permits gaming upon U.S. flag vessels to the same extent as permitted on foreign ships. Beyond this, our wage rates are now competitive with foreign shipyards. In fact, one major U.S. yard on the West Coast bid last summer for the construction of a major cruise vessel. The yard was told its bid was cost-competitive, but fell through due to a lack of competitive financing.

The Unsoeld proposal is designed to provide a level playing field between the United States and foreign interests in the cruise industry. Many provisions of H.R. 3821 and H.R. 3822, such as accelerated depreciation and a domestic Capital Construction Fund (CCF), have passed the House and Senate passage is supported by the Administration. Representative Unsoeld's proposal merely recognizes special requirements of the cruise sector. At stake are American jobs, an opportunity to diversify our nation's economy, and potentially hundreds of millions of dollars for many U.S. port cities.

* To accommodate this growth, 23 major cruise vessels, each worth between $270 and $385 million, are currently on order. Market experts suggest an additional 31 vessels will be needed by the end of the decade. Indeed, as reported in *Cruise Industry News,* Mr. Kirk Lanterman, president of Holland America Line, feels that there may not be enough capacity to meet demand as lines retire older ships, and that cruise lines need to build new and more exciting ships, and to develop new itineraries and new markets.

* Just 20 homeport calls—five months of weekly sailings by a single ship—can pump $7 million into a local economy, create 100 jobs, $2.5 million in personal income, and $300,000 in local taxes.

* Just one twelve-hundred-passenger vessel with a crew of 500 would create 1,050 seafaring jobs.

* Cities with shipyards will see three dollars of economic activity generated for every one dollar invested in vessel construction. In the larger picture, the supplier industry—providing ropes, cables, interiors, and hundreds of other items—is spread out across all 50 states.

SHARING IN THE MARKET'S PROJECTED GROWTH

It is important to note that the Unsoeld proposal will *augment* existing cruise operations, not replace them. While foreign lines do stand to benefit from an expanded base of qualified yards, due to the possibility of joint ventures and a convention deduction which will attract more first-time passengers to the market, the legislation does not require participation of foreign lines to be successful.

A U.S. cruise fleet could operate on routes currently off-limits to foreign cruise ships, including coastal itineraries between U.S. ports. Historic cruises between East Coast cities such as Boston, New York, Philadelphia and Charleston could create a floating "Freedom Trail"; sailings between Washington state and Alaska, Galveston and Tampa Bay would once again be viable. We are confident a market for such coastwise cruises exists as they are consistent with the industry's fastest growing category, the 2-5 day market, reflecting North Americans' shorter vacation patterns.

The Unsoeld proposal creates additional opportunities as well.

* U.S. flag ships operating out of a U.S. port will have the ability to offer tax deductions for on-water conventions equivalent to those available for land-based conventions. With annual revenues of $57 billion, the convention and meeting industry is eleven times larger than the cruise industry, therefore greatly extending the range of potential customers for U.S. cruises.

* Incentive travel grossed $2 billion in the United States in 1982, a figure which has increased to $7 billion today. With cruise ships being the hottest category of the incentive travel market, a 10% tax exemption will encourage companies to provide incentive travel on U.S.-flag vessels .

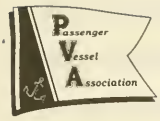
* Safety of Life at Sea (SOLAS) standards—the standard accepted as safe for every foreign ship carrying U.S. passengers in the world today—will enable our shipyards to explore a transfer of technology with foreign yards and accounts.

* Title XI loan guarantees, a Capital Construction Fund (CCF) and amortization over three years make the investment in a U.S. vessel considerably more feasible and attractive than has been the case in the past.

* Changing the amount of allowable foreign ownership in a U.S. vessel from 25% to 49% will provide access to capital familiar with cruise industry.

* An opportunity for U.S.-flag vessels to be in the running for access to marine parks with limited permits is long overdue.

In conclusion, we are confident that H.R. 3821 and H.R. 3822 will create American jobs; open coastal cruise markets; stimulate U.S. shipbuilding, conversion, and repair; and provide investment opportunities in a market with proven economic potential. We applaud Representative Unsoeld's fine work in proposing a fair and workable solution to the long-standing problem of U.S. participation in the cruise ship industry. It is now up to us to work together to realize the gains and opportunities which will finally be within reach of our nation.



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Testimony of the

Passenger Vessel Association

to the

Subcommittee on Merchant Marine

U.S. House of Representatives

on

H.R. 3821 and H.R. 3822

April 13, 1994

Mr. Chairman, Members of the Subcommittee, my name is Eric Scharf. I serve as Executive Director of the Passenger Vessel Association which I am pleased to be representing here today. Founded in 1971, PVA represents some 500 companies that own, operate and supply U.S.-flag passenger vessels. Our members include, for example, Mercury Yacht Charters, owner of Chicago's First Lady, and Wendella Sightseeing Tours, also in Chicago, Spirit Cruises headquartered in Norfolk, and Seattle Harbor Tours and the Washington State Ferry System in Seattle, among others. Altogether our members operate about 1,200 vessels and carry approximately 80 million people a year.

Among the most vibrant and exciting of the market segments PVA represents is what we call the small-ship overnight cruise market. These companies operate U.S. built, U.S.- flag, U.S. crewed cruise ships in popular itineraries throughout the Americas. Alaska Sightseeing\ Cruise West out of Seattle, operates seven vessels along the west coast from Oregon to Alaska. Special Expeditions\ Wilderness Cruise, also a Seattle based company, operates two vessels along the U.S. west coast. American Canadian Caribbean Cruise Line of Warren, Rhode Island, Clipper Cruise Line out of St. Louis, Missouri and Glacier Bay Tours & Cruises\YachtShip Cruise Line of Seattle between them operate 7 vessels which reach from Canada to South America. These vessels all have in common a size which accommodates from 49 to about 138 passengers.

PVA also is proud to represent the only two large cruise ships presently operating under the U.S. flag, the luxury liners S.S. Independence and S.S. Constitution, owned by Delta Queen Steamboat Company of New Orleans. Delta Queen is demonstrating its

confidence in the market served by these vessels by embarking on a $25 million plus renovation of the Independence, beginning this July, and a comparable renovation of the Constitution, beginning in 1995. In addition, Delta Queen has committed another $60 million toward the construction of a new, luxury steamboat, the American Queen, for operation on the Mississippi River.

It is a pleasure to be here today to support the bills H.R.3821 and H.R.3822, and to salute Representative Jolene Unsoeld and the other sponsors of this important legislative initiative. These bills address in a straightforward but fair manner a vexing problem for the American merchant fleet: the absence of large U.S.-flag cruise ships in most domestic passenger vessel trades. This has been a thorn in the side of the City of Seattle, in particular, as citizens of that City have watched neighboring Vancouver flourish as a major embarkation port for voyages to Alaska.

H.R. 3821 authorizes the Secretary of Transportation to issue a short term certificate of documentation to a foreign flag vessel of at least 250 gross tons and with at least 175 berths to operate in the coastwise trade if that trade is not served already by a U.S.-flag passenger vessel of at least that size. The owner or charterer of that vessel would be required to adhere to all laws applying to U.S.-flag vessels, including all manning requirements, while the vessel is in domestic service. In addition, the owner or charterer must sign a contract with a U.S. shipyard within 24 months for the construction of a vessel of at least 80 percent the size of the foreign vessel. Construction of that vessel must begin within three and one-half years.

The intention of the bill, as we understand it, is to give individuals an incentive to build and operate large U.S.-flag passenger vessels in domestic markets where none now exist by allowing them to enter the market with a foreign vessel, and subsequently, committing them to a program of building a replacement vessel in a U.S. shipyard.

First, an observation about the size threshold incorporated into the bill. It was, to some degree, a response to the concerns of our U.S.-flag small-ship cruise operators that led Rep. Unsoeld to propose the threshold which we find in H.R. 3821. Since those early conversations, however, our small-ship cruise operators have come to feel that 1600 gross tons, which respresents a well-accepted break in size for vessel operators, and 200 berths is a more appropriate standard. If the goal is to bring large cruise ships into U.S. markets where they do not now trade - not to put foreign vessels into competition with existing, successful American companies - then a threshold which clearly targets large ships and creates a definitive boundary should be the objective. Consequently, we would recommend that a standard of 1600 gross tons and 200 berths be substituted for the standard of 250 gross tons and 175 berths in the existing bill.

Second, while the goals of H.R. 3821 are laudable, the timetables and commitments required of an owner or charterer under Section 3, in our view, may not be sufficient to insure the objectives are met. Taken together, the time period afforded such an individual could mean that he or she has the privilege of operating a foreign flag vessel in the domestic markets for years before the its U.S. built replacement is operational. Construction may not begin before the end of the 42 months after the issuance of the interim

endorsement. Construction itself could take as long as another two to three years for a vessel of that size and complexity. In addition, the owner or charterer is given a free 12 month window in which to operate the foreign vessel without fear of penalty or reprisal if a change of circumstance or heart prompts a decision to withdraw. Moreover, it appears nothing precludes an owner from completing a vessel and registering it under the laws of a foreign country, thus defeating the intent of the law in the first place.

To address these concerns, PVA suggests that the Subcommittee consider amending Section 3 to require an owner or charterer contemplating an interim coast wide passenger trade endorsement for a foreign vessel to present to the Secretary a signed letter of intent to enter into a contract upon application for the interim certificate. If an interim certificate is issued, the owner and operator would have 12 months to enter into a binding contract and an additional 12 months to begin construction. Additionally, the owner or charterer should commit to operating the vessel built pursuant to the program in the domestic passenger vessel trade for a time certain before being allowed to apply to the Secretary for reflagging privileges. Finally, to insure that any application is well considered and made in good faith from the start, an owner or charterer should be required to post a performance bond or demonstrate some other serious financial commitment to the project before being granted an interim certificate.

Early discussions about the timetables and commitments required in the existing bill revealed a concern that they not be so restrictive as to discourage interest from the outset. It is our view, however, that any undertaking of this magnitude necessarily must

be preceded by a thorough analysis and knowledge of the market at issue, and a command of the costs and expected returns involved. No businessman in his right mind would embark on such a project - **whether or not pursuant to this act** - without having this information already at hand. If this is so, individuals applying for interim certificates already should have the information they need to make the kind of solid commitments we are recommending. If they do not, their ultimate ability to meet the requirements and complete the project even within the time frames contemplated should be viewed as suspect.

In addition, we support language that makes clear that foreign vessels or vessels built pursuant to this bill may not be placed in service in competition with existing, comparable sized U.S.-flag vessels under any circumstances. Toward this end, we support language that makes this bill applicable only to vessels operating in the coastwise or noncontiguous trades, not on the inland waterways. Vessels built in U.S. shipyards with the earnings of a foreign-flag vessel operating pursuant to this bill similarly ought to be prevented from entering service in competition with vessels built without such subsidies.

Finally, we wholeheartedly support Section 5, which deems a vessel to be owned by citizens of the U.S. if at least 51 percent of its stock is owned by citizens of the United States, Section 6 relating to Title XI loan guarantees, and Section 7 which gives preference to U.S.-flag vessels for permits to enter units of the National Park System. The change authorized by Section 5, in particular, may open new sources of capital to American owners which is always welcome.

Moving on to H.R.3822, PVA strongly supports the provisions of this bill and believes they will assist in insuring the vessels envisioned by H.R.3821 are, indeed, built. While separate on paper, the two measures together form the basis for a program to bring large cruise ships under the American flag and we urge that they be enacted in tandem.

In particular, we want to state for the record our strong support of those provisions of H.R.3822 that extend use of the Capital Construction Fund (CCF) program to passenger vessels in all markets. The Capital Construction Fund program currently restricts those vessels that may be built with CCF funds to the foreign, Great Lakes or non-contiguous domestic trades. That is to say, owners of excursion vessels operating on Puget Sound, the Mississippi, or the Tidewater of Virginia are prevented from using this longstanding program to assist in vessel construction. This unfair and counter-productive restriction should be lifted. CCFs offer a proven program to enable vessel owners to accumulate the large amount of capital needed to build the new generation of high-technology vessels we see today. Its availability for the construction of additional passenger vessels would help shipyards as well as ship owners across the country.

Last summer, PVA submitted testimony to the Ways and Means' Subcommittee on Select Revenue Measures in support of a proposal by Congressman Bill Jefferson to extend CCF availability to all passenger vessels. We continue to view CCFs as the single most effective way to accumulate capital to build new vessels in U.S. shipyards and are gratified that Rep. Unsoeld chose to include this measure in her legislation.

This concludes our statement, Mr. Chairman. Again, we want to thank Representative Unsoeld and her cosponsors, and you and members of this Subcommittee, for considering a proposal which offers real and concrete benefits to shipyards and port cities across the country, and makes a real and lasting contribution to the U.S.-flag passenger vessel industry of tomorrow.

STATEMENT OF JOE VALENTI
PORT DIRECTOR, PORT OF TAMPA
Before the Subcommittee on Merchant Marine
In Support of HR 3821 and HR 3822

Mr. Chairman, Members of the Committee,

thank you for the opportunity to appear before you regarding HR 3821 and 3822. I am Joe Valenti, Port Director at the Port of Tampa, Florida. The Port of Tampa is primarily known as a bulk port worldwide, namely because of its involvement in the fertilizer industry. Since the late seventies, however, we have been involved in the cruise ship business.

As we watched this enormously important tourist business grow through the eighties to an industry that now generates over 450,000 full-time jobs and $14.6 billion in compensation, we found our ability to participate in it was severely limited because the major expansion taking place was in short cruise segment of the industry, i.e., three and four day trips. Since the industry is overwhelmingly foreign flag, we were simply on the wrong side of the Florida peninsula to benefit from the proximity of the Bahamas - which became the foreign country of convenience for these itineraries.

What we found extremely frustrating was that we believed U.S. ports in proximity to Tampa - such as Key West, New Orleans, and Galveston -- made excellent partners for exciting and potentially successful cruise packages. Yet, because of the absence of a U.S. flag cruise fleet, these itineraries were prohibited and, thus, not possible.

We are not the only port to suffer because of this. At least, however, in our case the homeport business stayed in the U.S. I know you are aware this is not the case in the northwest where, because of existing law, our sister U.S. ports are excluded from a most lucrative portion of the cruise industry.

In addition to the benefits associated with homeporting ships, the creation of a U.S. cruise fleet would bring about U.S. jobs afloat. This would greatly help our ever vanishing Merchant Marine. The opportunity to capture a larger share of tourist dollars within the U.S. would also result.

Last, but not least, the potential for rejuvenating U.S. shipyards is most important. The Port of Tampa is home to one of the largest shipyards in the country. Last November, Tampa Shipyard, Inc. declared bankruptcy mainly due to the loss of defense work. Twelve hundred workers lost their jobs. A multitude of supply and support businesses were also seriously affected. Creating an incentive for a U.S. cruise fleet could very well provide the catalyst needed to bring this most important industry back to life.

Stimulating our Merchant Marine and modernizing our shipyards will create the additional benefit of improving our defense posture. The need for this was clearly demonstrated during Operation Desert Storm.

For all of the above reasons, the Port of Tampa and all of its sister public ports in the United States applaud Ms. Unsoeld, the other co-sponsors, and the Congress for considering this legislation and heartily endorse passage of HR 3821 and 3822.

STATEMENT OF THE
SEAFARERS INTERNATIONAL UNION OF NORTH AMERICA

BEFORE THE
SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON MERCHANT MARINE AND FISHERIES

U.S. HOUSE OF REPRESENTATIVES

APRIL 13, 1994

H.R. 3821
UNITED STATES PASSENGER VESSEL DEVELOPMENT ACT

AND

H.R. 3822
UNITED STATES PASSENGER VESSEL DEVELOPMENT TAX ACT

Mr. Chairman and Members of the Subcommittee:

The Seafarers International Union of North America (SIU) represents thousands of merchant seamen working on U.S.-flag ships operating in both domestic and international trades. SIU members crew the only two U.S.-flag ocean-going passenger vessels, the *CONSTITUTION* and the *INDEPENDENCE*. We appreciate this opportunity to express our strong support for H.R. 3821, the United States Passenger Vessel Development Act, and H.R. 3822, the United States Passenger Vessel Development Tax Act. This statement will focus on three issues of major importance to the SIU: jobs, maritime/passenger safety, and national security.

Throughout the 1980s, the U.S. cruise market grew rapidly. Between 1980 and 1989, the number of cruise passengers grew at an average annual rate of just over 10 percent. For the rest of this decade, that rate is expected to average between eight and nine percent. During 1993, approximately 4.8 million people embarked on cruises from U.S. ports, and industry analysts estimate that number to represent only 15 percent of the U.S.-based cruise market's total potential, given the size of the North American leisure market. By the year 2000, the annual number of cruise passengers is projected to grow to 8-10 million, and the U.S.-based cruise industry, currently a $5 billion industry, is expected to grow to $8-10 billion.

EMPLOYMENT OPPORTUNITIES:

Passage of H.R. 3821 and H.R. 3822 will help promote the development of a viable U.S.-flag cruise fleet by making it possible to operate U.S.-flag cruise ships on competitive terms with foreign-flag ships, thereby creating shipboard jobs for U.S. merchant mariners and shipyard workers.

It is estimated that a U.S.-flag fleet of approximately thirty 1250-passenger vessels would be required to serve that portion of the U.S. cruise market identified as the market goal by the Passenger Vessel Development Act (H.R. 3821 and H.R. 3822). Assuming 500 crew billets on a 1250-passenger ship, a U.S.-flag cruise fleet of that size could be expected to generate approximately 31,500 shipboard jobs.

It has often been claimed that U.S.-flag cruise ships are uncompetitive with foreign-flag ships because of higher U.S. labor costs. Yet due to the efficiency and high productivity of U.S. crews, as well as increases in foreign manning costs, U.S. crews are increasingly competitive with non-U.S. crews. The trend is highlighted in a recent report by Drewry Shipping Consultants in which foreign crewing costs are forecast to increase by approximately 15 percent over the next decade. The predicted increase is attributed to a worldwide shortage of

skilled seafarers and the drive to raise standards. That forecast suggests that U.S. crews will become even more competitive with non-U.S. crews in the years ahead.

U.S.-flag operators and maritime labor organizations continually strive for greater efficiency and productivity. However, many of the factors contributing to the higher costs associated with the operation of U.S.-flag vessels are beyond the control of labor. Such factors include the relatively high cost of complying with U.S. maritime regulations and the obligation to pay U.S. taxes on a scale far greater than any foreign-flag operation. We appreciate the need for such regulations to safeguard lives, protect the environment, and provide fiscal accountability. But there is also a need for a viable U.S.-flag passenger fleet. To achieve that end, potential U.S.-flag cruise ship operators must be offered operational incentives to compensate for higher U.S.-flag regulatory costs and the competitive tax advantages afforded to foreign-flag operations.

Passage of H.R. 3821 and H.R. 3822 will not only benefit U.S. mariners, but also the ailing U.S. shipbuilding industry. Since, in order to qualify to temporarily operate a cruise ship in the U.S. coastwise trades, the operator of the ship must replace it with one of similar berthing capacity built in a U.S. shipyard for use in the U.S. domestic trades, passage of H.R. 3821 and H.R. 3822 will generate much-needed commercial work for

U.S. yards.

In recent years, U.S. shipyards have suffered heavy losses of government work as defense spending has declined sharply. As a result, many shipyards have had to reduce their work forces; some have been forced to close. The unfortunate result is that 60,000 U.S. shipbuilding jobs have been lost and more than 40 shipyards have been forced to close since 1981. Our nation's capacity to build ships is at stake, as are the livelihoods of an additional 180,000 shipyard and related workers.

In order to survive and even prosper in the years ahead, major U.S. shipyards must make the difficult transition from defense to commercial shipbuilding work. Passage of H.R. 3821 and H.R. 3822 will facilitate that transition, thereby helping to maintain U.S. shipbuilding capacity. The modest U.S.-flag market share identified by the Passenger Vessel Development Act (H.R. 3821 and H.R. 3822) could generate U.S. cruise ship construction equivalent to twenty-four 1250-passenger (45,000 dwt) ships between 1994 and 2010.

The construction, conversion, and upgrading of only 20-24 vessels in U.S. shipyards will provide work for approximately tens-of-thousands of shipyard workers. Shipbuilding contracts would total $5-6 billion and generate $15-18 billion in related economic activity supporting an additional 100,000 jobs.

The U.S. steel industry would be another major beneficiary. Approximately 45,000 to 50,000 tons of steel go into the production of a 1250-passenger ship, adding up to a minimum of 1,080,000 tons of U.S. steel for 24 such ships, or 1.16% of the 92.9 million net tons of U.S. raw steel produced in 1992. Since many of the 84 steel-producing companies in the United States are located in the leading steel-producing states of Indiana, Ohio, and Pennsylvania, the substantial increase in shipbuilding activity that is expected to occur following passage of H.R. 3821 and H.R. 3822 will have a positive impact on the economies of those states. Suppliers in the coal and iron ore industries, and the ports where those commodities are shipped, will also benefit.

The Passenger Vessel Development Act (H.R. 3821 and H.R. 3822) will permit temporary access to all coastwise itineraries not being served by a U.S.-flag vessel of at least 250 GRT, and with a passenger capacity of at least 175. To gain such access, the operator of the vessel must replace it with one of similar berthing capacity built in a U.S. shipyard for use in the U.S. domestic trades. H.R. 3821 and H.R. 3822 will thus result in the development of new coastwise itineraries, thereby bringing cruise ships and the substantial economic benefits they generate to many U.S. port cities--among them, Seattle, San Francisco, Philadelphia, New Orleans, Boston, New York, and Baltimore--that have been unable to attract a significant share of foreign-flag cruise business. It will also generate additional cruise

business for U.S. ports that are already major cruise hubs.

Consequently, it will significantly increase the number of longshore and other port jobs (ship docking, bunkering, warehousing, etc.) throughout the United States. It will also increase jobs in local transportation, utility, services, wholesale and retail trade, finance, insurance, and real estate industries in and around U.S. port cities.

PASSENGER SAFETY:

Passage of H.R. 3821 and H.R. 3822 will lead to an increase in the number of U.S.-flag cruise ships operating from U.S. ports. Consequently, it will increase passenger safety, since U.S.-flag ships are subject to rigorous safety standards.

Of all the many issues of concern to the U.S. government agencies and bodies that deal with maritime-related matters, none is more important than the safety of life at sea. This concern is paramount, no matter what the vessel. It is greatly magnified, however, in the case of a cruise ship on which the lives of possibly as many as 3,000 passengers and crew could be put at risk in the event of an emergency at sea.

In July, 1993, the National Transportation Safety Board (NTSB) issued a special investigation report, *Accidents Involving*

Foreign Passenger Ships Operating From U.S. Ports, 1990-1991 (NTSB/SIR-93/01). The special investigation revisited the safety issues addressed in the NTSB's 1989 safety study, *Passenger Vessels Operating From U.S. Ports* (NTSB/SS-89/01).

The NTSB's more recent investigation revealed that many of the safety problems it had uncovered in its previous safety study had gone uncorrected since 1989. Among the accidents that are reviewed in the 1993 report is the tragic fire that occurred on the Bahamian-flag cruise ferry *SCANDINAVIAN STAR* in April of 1990 in which 158 passengers died. Only a month earlier, the ship had been operating in the U.S. day-cruise trade.

The NTSB was not involved in the investigation of that fire, since the ship was operating between Denmark and Norway when the tragedy occurred. But the NTSB nevertheless took a keen interest in the progress of the investigation, because it had investigated an earlier fire on the same ship when it was operating gaming cruises-to-nowhere from south Florida ports. During one such voyage in March, 1988, a fire broke out in the engine room while the ship was under way in the Caribbean Sea with 439 passengers and 268 crew members on board. As a result of that fire, two passengers had to be evacuated from the vessel and flown to a hospital in St. Petersburg, Florida, for medical treatment.

In its report on the 1988 accident, the NTSB noted the

following shortcomings with the ship's firefighting and emergency response capabilities: the vessel's firefighting equipment was inadequate; the crew members had received inadequate firefighting training; firefighting procedures were inadequate; the emergency plan for evacuating passengers was inadequate; and the ability of the crew members to communicate with the passengers was inadequate due to the lack of a common language between them. The NTSB issued 26 safety recommendations to correct these deficiencies.

Tragically, the recommendations went mostly or entirely unheeded, as shown by the official report on the fatal 1990 fire published by the Norwegian government, which identified many of the same safety problems the NTSB had identified in its report on the 1988 fire. The NTSB report issued in July of last year states: "The Safety Board believes that if the safety recommendations issued as a result of its 1989 passenger vessel safety study and its report of the 1988 fire on board the *SCANDINAVIAN STAR* had been implemented, the loss of life that occurred in the 1990 fire on board the *SCANDINAVIAN STAR* probably would have been significantly reduced." In its 1993 report, as in its 1989 report, the NTSB listed inadequate firefighting training, inadequate evacuation and rescue capabilities and procedures, and the inability of crew members to communicate with passengers due to the lack of a common language as continuing safety problems on many of the foreign-flag cruise ships

operating from U.S. ports, as did the U.S. General Accounting Office (GAO) in a report issued in March, 1993.

The GAO report provides information on the U.S. Coast Guard's program for examining safety conditions on foreign-flag cruise ships operating from U.S. ports. The report notes that through its safety examinations, the U.S. Coast Guard continues to find safety problems on foreign-flag cruise ships, including inoperable fire doors and improperly designed escape routes.

As key reasons for these safety problems, the report cites inadequate inspections by flag nations or classification societies and differing interpretations of international safety standards. As the subcommittee is aware, foreign-flag vessels carrying U.S. passengers are under U.S. Coast Guard jurisdiction only when they are within U.S. waters. On the high seas, those ships are under the jurisdiction of the flag states and the International Maritime Organization (IMO) for compliance with national and international safety requirements.

In his 1991 World Maritime Day message, William A. O'Neill, the Secretary General of the IMO, warned of the danger to cruise passenger safety. Pertinent excerpts from Secretary O'Neill's comments are as follows:

The responsibility for enforcing IMO standards

rests with individual Governments... Yet the huge discrepancy between the accident rates of various fleets indicates that this is not being done.

In 1989, 3.7 million people took their vacation on a cruise liner [1993 -- 4.8 million]; by the end of the century this figure is expected to grow to 10 million a year. Yet in recent years there have been a number of accidents to passenger ships which have resulted in the deaths of hundreds of people. Will 10 million people really want to go to sea if they think there is a serious risk of a fire on board or of the ship sinking and that those responsible for safety are not doing anything to improve the situation?

The lessons of the *SCANDINAVIAN STAR* fire and Secretary General O'Neill's warning have not gone unlearned in Europe. A recent directive from the European Union's (EU) Council of Ministers which was approved by the European Parliament last month and which is due to come into force by July 1995, will impose higher standards and limit the employment of non-EU officers and crew on EC-flag vessels. Under the directive, bilateral crewing agreements under which often unqualified seafarers have been employed on some EU-flag vessels will apparently be outlawed.

In addition, the directive requires that all crew members of passenger ships and regular line ferry vessels with responsibility for the operation of lifesaving equipment be capable of communicating in the language or languages spoken by the majority of passengers usually traveling on the specific route. The language requirement is of critical importance: accident analyses have shown that during an emergency at sea, the survival of passengers can depend on their being able to readily understand and quickly follow instructions given to them by members of the crew.

To the extent that the language-barrier problem exists on U.S.-based, foreign-flag cruise ships, passage of H.R. 3821 and H.R. 3822 will ameliorate it by increasing the number of U.S.-manned cruise ships operating from U.S. ports, since approximately 85 percent of cruise passengers who embark from U.S. ports are U.S. citizens, virtually all of whom speak English.

But the safety advantages of U.S.-flag ships go far beyond the matter of communication between passengers and crew. For as the members of this subcommittee know, U.S.-flag ships, unlike many foreign-flag ships, are subject to stringent safety regulations and standards. And U.S.-flag ships are manned by U.S. merchant mariners, who are counted among the best-trained and most rigorously tested maritime professionals in the world.

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The U.S. Coast Guard conducts lifeboat testing and certifies firefighting testing of U.S. seafarers, and issues them mariner's documents. In addition, U.S. mariners receive CPR and other first aid training, and are subject to background checks and mandatory drug testing--all to insure that U.S.-flag passenger ships remain among the safest.

Due to the failure of the U.S.-based, foreign-flag cruise industry to enact the security guidelines in the IMO's 1986 Measures to Prevent Unlawful Acts Against Passengers and Crews on Board Ships, the U.S. Coast Guard, in a move to halt terrorism at sea, is proposing to require operators of vessels of 100 GRT or more in size that use U.S. ports and carry over 12 passengers on voyages of 24 hours or longer to implement a U.S. Coast Guard-approved security program for each of their vessels. That the U.S. Coast Guard describes its efforts to implement its security proposals as a priority project indicates how seriously it views the problem of security on foreign-flag vessels using U.S. ports. That it feels compelled to require these foreign-flag vessel operators to implement the proposed security measures indicates that many of these operators cannot be depended upon to implement the measures necessary to protect their passengers and crews except when pressured to do so.

NATIONAL SECURITY:

The development of a larger fleet of U.S.-flag cruise ships operating in accordance with U.S. safety regulations will obviously be of significant benefit to cruise passengers. Less obvious, perhaps, are the many ways in which the development of a U.S.-flag cruise fleet will benefit national security.

A larger fleet of U.S.-flag cruise ships will, of course, mean more shipboard jobs for U.S. mariners, which in turn will mean that a larger pool of trained American seafaring professionals will be available to support U.S. defense efforts whenever necessary. At present, there are approximately 11,400 shipboard jobs in the U.S. merchant marine fleet. An additional 31,500 shipboard jobs on 30 U.S.-flag cruise ships would bring the total number of U.S. seafaring jobs to 42,999, of which between 4,299 and 6,449 would be operating positions. Obviously, the skilled licensed and unlicensed members of vessel operating crews are of most interest to the Department of Defense, since they are needed to operate the vessels used to transport supplies, heavy equipment, and troops during military operations.

During military operations overseas, U.S.-flag cruise ships could be used as recreational facilities for U.S. troops; as

hospital ships; as offshore command/control centers, and as offshore barracks for U.S. military personnel when suitable shoreside facilities do not exist or, for security or political reasons, cannot be used.

Several recent cases can be cited of cruise ships being used in these and other capacities during military operations. For example, during the Falklands War in 1982, Britain called upon three cruise ships--the *QE2*, the *CANBERRA*, and the *UGANDA*--and several passenger/car ferries for assistance. The *UGANDA* was used as a hospital ship, and members of its non-operating crew served as stretcher bearers and performed other services. During the Desert Shield/Desert Storm operations, the U.S. Navy's Military Sealift Command contracted with Cunard Line for a cruise ship that served as an R&R facility for U.S. military personnel.

In conclusion, there is clearly a wide range of benefits associated with the development of a U.S.-flag cruise fleet. The SIU believes that passage of H.R. 3821 and H.R. 3822 will assist in the development of such a fleet. Therefore, we urge this subcommittee and the full house to support and vote for passage of these bills.

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Statement By
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On
H.R. 3821 - United States Passenger Development Act
H.R. 3822 - United States Passenger Development Tax Act

Before

Committee on Merchant Marine and Fisheries
House of Representatives
Washington, DC
April 13, 1994

Mr. Chairman, Members of the Merchant Marine Subcommittee, on behalf of the member companies of the Shipbuilders Council of America, I want to thank you for the opportunity to appear today to offer the views of American shipyards on H.R. 3821 (United States Passenger Vessel Development Act) and H.R. 3822 (United States Passenger Vessel Development Tax Act). The Shipbuilders Council of America - the national trade association of American shipyards, marine equipment manufacturers, and naval architects - appreciate the fact that these bills are an attempt to revitalize the domestic passenger vessel market and we pledge our support to work with the Subcommittee to develop legislation that will achieve this goal. Our membership list is attached.

As the members of this Subcommittee know, the state of American shipyards continues to decline. Spending cuts in the defense program have been severe and the FY 1995 budget for Navy shipbuilding is the smallest such budget in more than 20 years. We have many times in the past held the view that, unless we change our approach to the market, our industry will decline from one that employs about 100,000 people to one that in 1997 will only employ 28,000 workers. If one considers the impact on the primary supplier base and the secondary supporting

infrastructure, we expect that more than 180,000 Americans will lose their jobs and dozens of American shipyards and supporting companies will close. This is a terrible price to pay for winning the Cold War.

Fortunately, the Congress and the Administration have realized that transition to alternative markets is the only way in which this job loss and company closure can be offset. The establishment of the National Shipbuilding Initiative, as passed by the Congress, and the announcement of the President's Initiative to support U.S. shipyards in the Fall of 1993 were important first steps in attempting to aid U.S. yards to make the transition from military to commercial markets.

Both the Congressional and Administration initiatives focused on five points:

1) Termination of foreign subsidies.

2) Extension of Title XI Ship Mortgage Guarantees to export customers.

3) Modest research and development support for transition efforts.

4) Removal of burdensome government regulations.

5) Support for international shipyard marketing efforts.

While it is important not to rush to judgement on the implications of any of these efforts, it is also true that putting Congressional direction into execution has been slow at best. For example, while the Congress directed the new regulations on the Title XI program to be issued by February 28, they in reality did not

emerge until March 31, 1994. I can report, however, that the regulations do appear to provide for the flexibility that the Congress intended by extending domestic terms and conditions to export customers. It was clearly the strong message sent by this Committee to the Administration on March 17 that aided the release of the regulations. The industry is grateful for your leadership on this issue.

We expect to see announcements within the next few days on the projects to be supported through the Maritime Technology (MARITECH) program. The projects to be supported will allow U.S. yards to develop the designs and production processes that will create products desired by the world's shipowners.

In both the regulatory reform effort and the marketing support arenas, it is perhaps too early to tell how the institutional mechanisms will be established to meet these requirements. But discussions are underway with the Administration and I am hopeful that we will see some action in these areas.

It is only in the field of foreign subsidy termination that we have been most bitterly disappointed. As many of you know, the Administration argued for patience and support for a final round of talks to be held in mid-March at the Organization for Economic Cooperation and Development. Mr. Chairman, not only were there no developments, but our trading partners were not cooperative.

Despite the pressure that was being exerted, our trading partners once again

failed to respond to the proposals made by the United States Delegation led by the fine work of the U.S. Trade Representative's office. The Japanese refused to make a commitment in response to the U.S. proposal on home credits. The Europeans made a total mockery of all the work that has gone into these negotiations for the past five years. The Europeans do not want an agreement. They do not want their export credit regimes covered by the Agreement. But, the Europeans showed us what they really want and that is access to our domestic market. They are willing to risk a trade war to get it.

That is what makes today's hearing and the subject of these two bills so important. The cruise ship market is one of the most heavily subsidized of all shipbuilding market segments. The Europeans do not want a subsidy discipline because their subsidy programs currently control the cruise ship market. The members of this Subcommittee need to understand that all of the cruise vessels operating in the U.S. trades are foreign flag vessels built in foreign subsidized shipyards.

Why are cruise ships of interest to U.S. shipbuilders? Because it is a market niche that we have targeted for our shipyards that have developed expertise in the building and outfitting of complex and sophisticated ships.

The usual criticism that is directed towards U.S. shipyards is that we have not built a cruise vessel in this country since the 1950s. The fact of the matter is

that neither had the Italians until the Government of Italy had made a deliberate decision to subsidize the development of Italian cruise ship construction. In the late 1980s, the Italian Government made a deliberate attempt to use subsidies to capture cruise ship construction contracts for state-owned Fincantieri. Until Fincantieri secured a cruise ship contract with P&O Princess Lines in 1988, the Italian shipbuilding firm had not built a cruise ship since 1966. In just five years, subsidies enabled Fincantieri to make up for more than 20 years without cruise ship contracts and become the world's premier cruise ship builder. Attached to this statement is a complete review of the kinds of subsidies that European shipyards have used in order to capture a monopoly position in the marketplace.

It is in order to protect this monopoly position that the European Union refuses to agree to a subsidy discipline at the OECD. This is why we have now told the Administration that further negotiations at this time are fruitless and we are asking them, and the members of this Subcommittee, to honor the commitment to support retaliation against those countries that have refused to negotiate an end to subsidy practices by enacting H.R. 1402, the Shipbuilding Trade Reform Act of 1994.

In addition to supporting the retaliation, the Congress needs to consider alternative mechanisms that can punish those who seek to harm U.S. shipyards. One such effort is that of the legislation that we consider today. The first point

is to ensure that we do not open our domestic market to those very same countries who want access while rejecting the notion of subsidy termination in their own countries. H.R. 3821 and H.R. 3822 seek to solidify control of the domestic passenger vessel market for U.S. interests. It is clear that Congress should not open the domestic market for passenger vessels when it is transparent that the Europeans want to ensure that American shipyards can never develop a credible challenge to the European dominance of the world market. We also agree with the notion that access to America's national park system should also be closely controlled so that European subsidized vessels do not get first access to land that belongs to the American people.

The Passenger Vessel Development Act (H.R. 3821) would permit foreign built cruise vessels to enter the domestic market for a period od 12 months, if the operator of that vessel enters into a letter of intent with a U.S. shipyard to replace the vessel that has received an interim certificate to operate within the U.S. market. The bill goes on to propose that a ship construction contract must be entered into within two years of the granting of the certificate and actual ship construction must be started within three years of certificate granting. Thus, the foreign built vessel will have access to the U.S. market for more than three years before a U.S.-built vessel will be completed and brought into the market.

However, because of our concern relative to ensuring that the domestic

market is not open to the foreign subsidizers, we must ensure that the provisions in H.R. 3821 do not provide an opportunity for the clever or the greedy to take advantage of the intent of the Congress in establishing a U.S. ship construction capability in the cruise market. As a result, we would propose that the relationship between certificate granting and construction contract performance be tightened. In addition, we believe that penalties should apply for those who do not place bona fide contracts. We pledge to work with the Subcommittee on establishment of time lines that meet the multiplicity of goals that the Subcommittee is trying to achieve.

On the second bill, H.R. 3822 would seek to allow for tax treatment changes for U.S. cruise ships built in the United States. The members of the Shipbuilders Council of America would support the passage of such legislation.

Finally, we can not underemphasize to the Subcommittee that we must move carefully into the future realms of domestic market and maritime reform. It is clear to us that our trading partners mean to do us harm by denying global market access to U.S. shipbuilders. We urge caution on this Subcommittee when considering changes to support domestic market developments. We urge even greater caution when considering the maritime reform changes that are under consideration today. The Subcommittee needs to remember that decisions taken to support the future capital investment of U.S.-flag operators may do nothing

more than reward those countries that have subsidized and dumped commercial ships on the marketplace to the detriment of tens of thousands of shipyard workers. While we do not blame the ship operators for making business decisions, U.S. policy-makers have concerns that are greater than simply whether or not a U.S. consuming entity is getting a great price on a dumped ship. The members of the Shipbuilders Council of America know that this Subcommittee is mindful that maritime policy reform, without a Series Transition Payment (STP) program intended to offset the predatory pricing behavior of others, is a policy that rewards the few consumers to the detriment of the many producers. To be blunt, maritime reform that does not include a funded STP program can not be supported by U.S. shipyards particularly in the face of intransigent behavior of our foreign trading partners.

Thank you for the opportunity to appear today and I would be pleased to respond to any questions that you may have.

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CRUISE SHIP SUBSIDIES

- All of the newer cruise ships operating under foreign flags in the U.S. trades were built with foreign government subsidies (with the possible exeception of some vessels built in Finland).

- Foreign subsidies have restricted cruise ship construction to a few European countries, principally Italy and France, the biggest subsidizers. In essence, the governments of these countries control the cruise ship construction market through their subsidy practices. The government of Germany also subsidizes cruise ship construction, but to a lesser extent.

- The major foreign-registered cruise ship companies engaging in the U.S. passenger trades are Carnival Cruise Lines and its subsidiary, Holland America Lines (HAL); P&O Princess Lines; and Royal Caribbean Cruise Lines (RCCL). Kloster Cruise's Norwegian Cruise Lines (NCL) and Italy's Costa Crociere are also significant players in the U.S. cruise market. All have new ships under construction at, or delivered recently from, the subsidized, government-owned shipbuilding conglomerate Fincantieri in Italy, or the subsidized yard Chantiers de l'Atlantique in France.

- The Wartsila shipyard in Finland used to be the world's premier builder of cruise ships. However, the Government of Finland did not provide sufficient subsidies to allow the yard to compete effectively against the subsidies given to Fincantieri in Italy and Chantiers de l'Atlantique in France, and Meyer Werft in Germany. Consequently, Wartsila went bankrupt in the late 1980s and was driven out of business. The yard has since been resurrected as Masa-Kvaerner, under the ownership of the Norwegian conglomerate Kvaerner. Initially Carnival Cruise Lines took an ownership position in the new yard to ensure that the cruise ships it had on order when Wartsila went bankrupt would be completed. Ironically, it was the Carnival ships that ultimately drove Wartsila out of business. Currently, Carnival has three ships on order at Kvaerner-Masa.

- In the late 1980s, the Italian government made a deliberate attempt to use subsidies to capture cruise ship construction contracts for state-owned Fincantieri. Until Fincantieri secured a cruise ship contract with P&O Princess Lines in 1988, the Italian shipbuilding firm had not built a cruise ship since 1966. In just five years, subsidies enabled Fincantieri make up for more than 20-years without cruise ship contracts and become the world's premier cruise ship builder.

- Cruise vessels built and registered in Italy are eligible for a contract-related subsidy and a 30 percent operating subsidy. In January 1993, P&O Princess Lines placed a $300 million contract with Fincantieri which will be eligible for a subsidy of over 39 percent provided by the Italian Government. (After just five years, having received the full value of the operating subsidy, P&O can register the ships under a different flag of convenience, dismiss its Italian seafarers, and hire cheaper crews.) This contract follows an earlier P&O order for two ships delivered in 1990 and 1991 which the Italian Government subsidized at 58 percent.

- The Italian Government has promised to pay its state-run shipyard at least $210 million on a Carnival-Holland America three-ship contract valued at $750 million-$800 million. One of the ships was just delivered; the other two are due in 1993 and 1994. In January 1993, Carnival ordered another ship from Fincantieri that is eligible for a 9 percent contract-related grant plus financing subsidies.

- Italian-owned Costa Crociere is scheduled to take posession of a Fincantieri-built, subsidized cruise ship this year for which the Italian Government will provide a 58 percent subsidy. It is the sister ship to the vessel delivered last year which was also subsidized at the 58 percent level, including a 28 percent contract grant and a 30 percent subsidy for Italian registration. The Italian Government will end up paying $313 million on the $540 million contract price for the two-ship order.

- Royal Caribbean Cruise Lines has received three subsidized cruise ships since 1990 from France's Chantiers de l'Atlantique. The French Government paid 28 percent subsidies on all of the ships, amounting to $210 million on contract values totalling $750 million. This is the minimum subsidy provided by the French Government, which has consistently refused to disclose the actual amounts. One of the RCCL ships was suspected of receiving a 36.5 percent government grant, rather than 28 percent. Any government finance involved was not revealed.

- Royal Caribbean Cruise Lines announced in January 1993 that it was ordering two more cruise ships from France's Chantiers de l'Atlantique, with an option for a third.

- Norwegian Cruise Lines (subsidiary of Kloster Cruises) has one subsidized cruise ship on order at Chantiers de l'Atlantique; the subsidized lead ship was delivered by the yard last year. The subsidy grant paid by the French Government on the two-ship order valued at $440 million was at least $88 million (20 percent of the contract price), with some reports speculating that the subsidies were as much as $176 million (40 percent of the contract price). Again, the French Government has refused to disclose the actual subsidy amount.

- Subsidies for cruise ship construction in the European Community (i.e., Italy, France, and Germany) pervert the EC Directives which have allowed, and continue to allow, shipbuilding subsidies for purposes of equalizing competition with Asian yards, primarily Japan and South Korea. But it is EC countries not Asian countries that have dominated and currently dominate the cruise ship construction market. This market segment, therefore, falls outside the rationale of the EC Directives, and by allowing cruise ship construction subsidies under the guise of the Directive, the EC is guilty of blatant and deliberate restaint of trade.

- Because of foreign subsidies, foreign-flag passenger liners which trade out of U.S. ports have received the benefits of artificially distorted prices, construction costs, and operating costs of the ships. A significant portion of the annual operating costs of these cruise vessels is attributable to the financing of capital construction costs. Consequently, government subsidies associated with the construction of a foreign-flag cruise vessel lower the capital costs to be borne by the owner, thereby lowering the annual operating costs of the ship as well.

EXAMPLES OF FOREIGN SUBSIDIZED CRUISE SHIPS IN THE U.S. TRADES
SHIPS ON ORDER AND RECENT DELIVERIES

Owner	Yard/ Order Date	Ships/ Registry/U.S. Routes	Del. Date	Price and Subsidy
Carnival Cruise, USA (Miami) Holland America subsidiary (Seattle)	Fincantieri ITALY Ordered: 1/89	3 ships, 1,250 berths ea (50,000 grt) *Statendam* *Maasdam* *Ryndam* Register: Bahamas *(note 1)* Routes: U.S. West Coast, Alaska, Caribbean	 1992 1993 1994	Price: $200m 250-300m 300m $ 750-800m total Subsidy: 28% grant = $210m-$224m plus govt. financing subsidy *(note 1)*
Carnival Cruise, USA (Miami)	Fincantieri ITALY Ordered: 1/1993	1 ship, 1,300+ berths, 2,600 passenger (95,000 grt) Foreign registry	1996	Price: $400m+ ($550m) Subsidy: Undisclosed. Eligible for 9% grant = $36m (+ govt. finance) (note 2)
P&O, U.K. Princess Cruises, USA (Los Angeles)	Fincantieri ITALY Ordered. 1988 *(Note 3)*	2 ships, 1,700 passengers ea (70,000 gt) *Crown Princess* *Regal Princess* Register: Italy Routes: U.S. West Coast, Caribbean	 1990 1991	Price: $275m ea, $550m total Subsidy: minimum 28% grant $154m 30% Italian flag sub =165m Total: $319m (+ govt. finance) note 3)
P&O, U.K. Princess Cruises, USA (Los Angeles)	Fincantieri ITALY Ordered: 1/93	1 ship, 1,950 passenger (77,000 gt) *Sun Princess* Register: Italy	1995	Price: $300m Subsidy: Eligible for 9% grant = $ 27m 30% Italian flag sub. = 90m Total: $117m (+ govt. finance)

Continued

Notes on page 3

EXAMPLES OF FOREIGN SUBSIDIZED CRUISE SHIPS IN THE U.S. TRADES
SHIPS ON ORDER AND RECENT DELIVERIES (CONT'D.)

Owner	Yard/ Order Date	Ships/ Registry/Routes	Del. Date	Price and Subsidy
Royal Caribbean Cruise Lines (RCCL), USA - Miami (Parent company is Norwegian)	Chantiers de l'Atlantique, FRANCE Ordered: 1987	1 ship, 2,000+ passengers (45,000 gt) *Nordic Empress* Registry: Liberia Route: Miami-Nassau 3-day cruises	1990	Price: $180m Subsidy: 28% grant = $50.4m (+ govt. finance)
RCCL, USA - Miami	Chantiers de l'Atlantique, FRANCE Ordered: 1988	1 ship 2,350 passengers *Monarch of the Seas* Registry: Liberia or Panama Route: Caribbean (out of San Juan)	1991	Price: $270m Subsidy: 28% grant = $75.6m (36.5% grant=$98.7m) (+ govt. finance)
RCCL, USA - Miami	Chantiers de l'Atlantique, FRANCE Option on 1988 contract exercized 1989	1 ship 2,350 passengers *Majesty of the Seas* Registry: Liberia or Panama Route: Caribbean (out of Fla.)	1992	Price: $300m Subsidy: 28% grant = $84m (+ govt. finance)
RCCL USA - Miami	Chantiers de l'Atlantique FRANCE Ordered: 2/93	2 ships, option for 3rd (70,000 gt)	1995 1996	Price: $314.1m+ ea. Subsidy: 09% grant on 1 =$28.3m 20% on 2nd = 62.8m $91.1m (note 4)
Kloster Cruises, NCL subsidiary, USA - Coral Gables (Norwegian/Bermudan company)	Chantiers de l'Atlantique FRANCE Ordered: 5/90	2 ships, 1,200 psngr. ea (41,000 gt ea) *Dreamward* *Windward* Registry: Bahamas Route: Caribbean	1992 1993	Price: $220 ea, $440m total Subsidy: 20-40% 20% grant = $ 88m 40% grant = $176m (+ govt. finance) (note 5)
Costa Crociere, Italy	Fincantieri, ITALY Ordered: 7/89 Prelim. Agreement signed in 1987 *(note 6)*	2 ships, 1,300 psngr. ea (50,000 gt ea) *Costa Classica* *Costa Romantica* Registry: Italy Route: Caribbean	 1992 1993	Price: $270m ea, $540m total Subsidy: 28% grant = $151.2m 30% Italian flag subsidy = 162.0m Total: 313.2m (+ govt. finance) (note 6)

Notes on page 3

NOTES

1. Carnival Cruise - Holland America Lines ships - Originally, Carnival announced a contract price of $300 million for the second and third HAL ships in a press release. However, Carnival has recently said the total three-ship price was $750 million rather than $800 million, which may be because of the financing subsidy paid by the Italian Goverment. Initially, the ships were considered for the Swedish flag, then for the Italian flag, to get operating subsidies. Recently Carnival announced the ships would be flagged Bahamanian.

2. Carnival Cruise Lines ship - Ship brokers estimated the price of the latest Carnival ship order at over $400 million. However, sources at the shipyard said that it would cost $550 million to build the ship. Cost overruns are picked up by the government-owned and subsidized shipyard.

3. P&O Princess ships - When the United Kingdom's P&O Group took over Sitmar Cruises in 1988 they also took over a contract placed by Sitmar with Fincantieri. It is not clear if the contract-related grants given by the Italian Government to its shipyard to build the ships were restricted to the 28% subsidy ceiling under the EC's Sixth Directive in force in 1988, or if the subsidy was higher because the original contract was placed earlier by Sitmar. ***The contract was extremely important because it represented Italy's bid to get back into the cruise ship market from which it had been absent for over 20 years.*** To qualify for special subsidies, the ships were contracted by an Italian-registered company Astramar. The ships were flagged Italian in order to take advantage of the 30% subsidy available for Italian-built, Italian-flag ships. can get 30 percent subsidies, which are equivalent to the depreciation on the vessels during the first five years.

4. RCCL Ships - In September 1993 French industry minister Gerard Longuer was reported having said that the French government had contributed more than one-fifth (20%) toward the total cost of the second ship ordered at Chantiers de l'Atlantique by RCCL.

5. Kloster Cruise ships - Amidst reports that the French Government had approved a $176 million subsidy on the two Kloster cruise ships ordered from Chantiers de l'Atlantique, both the government and the shipyard refused to reveal the subsidy amount. Even if the government held to the 20% subsidy ceiling for contract-related aid amounting to $88 million, the government could have come up with other avenues to provide more cash to the shipyard, such as operating aid and financing aid.

6. Costa Crociere ships - The 28% contract grant subsidy on the Costa ships was permissible under EC rules because a preliminary agreement had been signed while that subsidy ceiling was in effect.

WHEN YOU

MEAN

BUSINESS...

REMEMBER

A MEMBER

April 4, 1994

The Honorable William O. Lipinski
Chairman, Merchant Marine and Fisheries Subcommittee
Room 1334 Longworth House Office Building
Washington, D.C. 20515-6230

Dear Congressman Lipinski:

The San Francisco Chamber of Commerce strongly urges the support of HR 3821 and HR 3822. Port cities stand to benefit greatly from the establishment of a United States cruise ship industry. Cruises between U.S. ports would create American jobs, provide opportunities for American investment in a market with proven economic potential and would facilitate U.S. shipbulding opportunities for shipyard conversion.

The cruise ship industry has grown on the average of 9.3 percent every year since 1980 and is expected to double within the next ten years to gross $9 billion annually with American citizens comprising 85% of all cruise ship passengers in the world. A major cruise vessel can bring up to $500,000 to hotels, restaurants, ship supplies, and other local businesses when in port.

The establishment of a United States cruise ship industry as set forth in H.R. 3821 and H.R. 3822, thereby developing a United States cruise ship registry, United States jobs, and a United States coastal cruise ship trade can only generate significant port revenues and further develop the economy of the nation's port cities.

Sincerely,

G. Rhea Serpan
President and CEO

465 California St., Ninth Flr. • San Francisco, California 94104 • Telephone (415) 392-4520

American Association of Port Authorities

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Phone (703) 684-5700
Fax (703) 684-6321
TWX 710-832-9823

April 6, 1994

The Honorable William Lipinski
Chairman
House Merchant Marine Subcommittee
543 Ford House Office Building
Washington, DC 20515

Dear Mr. Chairman:

Please accept this letter for the record of the Subcommittee's April 13, 1994 hearing on H.R. 3821, the United States Passenger Vessel Development Act and H.R. 3822, United States Passenger Vessel Development Tax Act (Unsoeld, D-WA). As you are aware, the American Association of Port Authorities (AAPA) was founded in 1912 and represents virtually every major U.S. public port authority, as well as the major port agencies in Canada, Latin America and the Caribbean. Our member ports are public entities mandated by law to serve public purposes--primarily the facilitation of waterborne commerce and the consequent generation of local and regional economic growth. This testimony, however, reflects only the views of the United States ports delegation of AAPA.

AAPA supports H.R. 3821 and H.R. 3822. U.S. public ports view these legislative proposals as an important development in the effort to promote a U.S. passenger trade between U.S. ports. Unfortunately current restrictions on operating a cruise service between U.S. ports has resulted in virtually no service by larger vessels (except in the Hawaiian islands). As a result, U.S. ports, labor and shipyards have not benefitted from a growing segment of the cruise market. Representative Unsoeld's bill provides some flexibility for operators to test potential cruise markets and, we believe, will promote new opportunities for U.S.-built, U.S.-crewed vessels operating between ports in all regions of the United States.

U.S. public port agencies voted to support the goals of the Unsoeld proposal at the AAPA Annual Convention held in Halifax, Nova Scotia last September. We will be pleased to work with the Subcommittee to see the legislation enacted.

Thank you for the opportunity to present our views.

Very truly yours,

Jean C. Godwin

Jean C. Godwin
Vice President, Government Relations

ONE HUNDRED THIRD CONGRESS

GERRY E. STUDDS MASSACHUSETTS CHAIRMAN

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U.S. House of Representatives
Committee on
Merchant Marine and Fisheries
Room 1334, Longworth House Office Building
Washington, DC 20515-6230
April 11, 1994

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MINORITY CHIEF COUNSEL
CYNTHIA M. WILKINSON

Honorable William Lipinski
Chairman
Subcommittee on Merchant Marine
H2-543 Ford House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

On April 13, 1994, your Subcommittee has scheduled a hearing on H.R. 3821, a bill introduced by our colleague Representative Unsoeld to promote the development of a United States cruise industry. I would appreciate your including this letter in the Subcommittee hearing record.

First, let me congratulate Representative Unsoeld for her efforts. As a member of the Committee on Merchant Marine and Fisheries since 1973, I can understand her frustration that the United States continues to lack a viable U.S. flag cruise industry. Representative Unsoeld should be commended for her attempts to solve that problem.

As the sole Representative of the State of Alaska, I am also interested in promoting cruise traffic. Tourism is the second largest private sector employer in the State of Alaska, employing over 18,000 people during the peak season and generating $1.1 billion in revenue annually. Since most cruise lines serving Alaska have offices in the State of Washington, we in Alaska have an opportunity to work with our closest neighbor State on developing an industry that is important to both of us.

Nevertheless, I find it necessary to sound a note of caution in regard to H.R. 3821, especially to the extent that it will adversely affect employment in Alaska while increasing employment in Washington.

Section 7 of H.R. 3821 establishes a new set of priorities regarding entrance by cruise vessels to National Parks. While this seems logical on its face, it ignores nearly fourteen years of history and Congressional action. Further, enactment of this

section without change could result in job losses in Alaska, even if it creates jobs in Washington. Also, as a technical matter, permits to enter National Parks are controlled by the Secretary of the Interior, not the Secretary of Commerce as indicated in this section.

The major attraction of a cruise to Alaska is the opportunity to visit Glacier Bay National Park. Currently, the number of cruise vessel entry permits to Glacier Bay is limited to 107 during the peak summer cruise season, based on a biological opinion issued by the National Marine Fisheries Service on the effect of cruise ship traffic on the endangered humpback whale. The opinion recently has been revised and the National Park Service is considering a new vessel management plan which would allow additional visits. For the moment, however, the existing permit restrictions remain in effect.

When Congress passed the Alaska National Interest Lands Conservation Act in 1980, it recognized that existing cruise ship operators had made significant investments in visitor services in Glacier Bay and throughout Alaska. As a result, Congress stipulated that cruise ship operators would retain historic rights to use Glacier Bay, subject to appropriate environmental restrictions. The historic rights of existing operators were re-affirmed by Congress last year.

Under section 7 of H.R. 3821, these historic rights would be ignored to the extent that they conflict with a vessel whose owner merely signs a letter indicating that he wishes to build a cruise ship in a U.S. yard. Depending on the timing of the letter and the issuance of an interim coastwise passenger trade endorsement, this could disrupt existing company operations for two full tourist seasons in Alaska. If the person who owns or charters the vessel then decides not to build in a U.S. yard, there would be little to no increase of jobs in Washington, and a loss of jobs in Alaska as a result of a current operator being forced out of business.

A further complication is found in subsection 7(b). Currently, all available permits are being utilized. Under this subsection, the Secretary of the Interior would have to "bump" a foreign-flag permit holder. How would the choice be made? What recognition would be given to historic rights of existing operators? The answers to these questions are crucial to employees of the tourism industry in my State.

Another question concerns the re-issuance of permits if the holder of an interim endorsement declines to build a U.S. vessel. Would permits be returned to those who are "bumped" or would they be given to new entrants?

As the Representative of the State which is most directly affected by this bill, as a long-time member of the Committee on Merchant Marine and Fisheries, and as the Ranking Republican

Member of the Committee on Natural Resources, which also has jurisdiction over H.R. 3821, I believe that solutions must be found to these problems before the bill proceeds. I believe we should support a bill which results in an American job increase, not one which merely provides no net loss of American jobs. I think that Representative Unsoeld has made a good first step and that we can make the necessary improvements.

I look forward to working with you, Mrs. Unsoeld, and the members of the Subcommittee on crafting a good bill that will be beneficial to all Americans.

Sincerely,

Don Young
Ranking Republican Member
Subcommittee on Fisheries
Management

DY:rhm

cc: Honorable Herbert H. Bateman
Ranking Republican Member
Subcommittee on Merchant Marine
Honorable Jolene Unsoeld
Members, Subcommittee on Merchant Marine

Office of the Mayor
City of Seattle

Norman B. Rice, Mayor

April 7, 1994

The Honorable William O. Lipinski, Chairman
Merchant Marine and Fisheries Subcommittee
1334 Longworth House Office Building
Washington, DC 20515-6230

Dear Representative Lipinski:

I am writing to urge your strong support of H.R. 3821 and H.R. 3822, which are scheduled for hearing in your committee on April 13. As you know, the legislation is necessary to establish a U.S. cruise ship industry.

Passage of this legislation will benefit communities around the nation. Although as many as 85 percent of world cruise ship passengers are Americans, American communities participate in neither the economic benefits of the cruise ship and tourist trade nor the employment opportunities in ship building, conversion and repair.

The example of Seattle may be particularly compelling: Under current constraints, the vast majority of cruise ship passengers in Northwest inland waters are Americans who travel to the Northwest by air, arrive at Seattle-Tacoma International Airport, and then are bussed past Seattle to Vancouver, British Columbia, where they embark on foreign-made ships to cruise in American waters around Alaska. Seattle could easily be the point of embarkation for this market, and Seattle labor could competently handle the related ship building, conversion and repair, but antiquated federal law keeps this community from participating in the opportunities available in this industry. H.R.3821 and H.R. 3822 would work to diminish the current constraints.

I am hoping that favorable review in your committee will set the tone for Congress in this effort. If I can be of any help please do not hesitate to contact me.

Sincerely,

Norman B. Rice

THE COUNCIL
OF
THE CITY OF NEW YORK
CITY HALL
NEW YORK, N.Y. 10007

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CHAIRMAN,
ECONOMIC DEVELOPMENT
COMMITTEE MEMBER,
FINANCE
RULES, PRIVILEGES AND ELECTIONS
LAND USE
SUB-COMMITTEE ON
PERMITS, DISPOSITIONS AND
CONCESSIONS

April 4, 1994

Hon. William O. Lipinski, Chair
Merchant Marine and Fisheries Subcommittee
Room 1334, Longworth House Office Building
Washington, D.C. 20515-6230

Dear Congressman Lipinski:

I am writing in support of H.R. 3821 and H.R. 3822. American port cities need to revitalize their waterfront. Passage of these bills will increase passenger cruise business within the United States, creating more jobs for our country's economy.

The need to revitalize our waterfront areas has become even more vital after the military's recent decision to close various naval bases. Waterfront related activities in New York City will suffer upon the closure of Naval Station New York. A revitalized port industry spurred by H.R. 3821 and H.R. 3822 will help our city's economy and assist workers economically displaced by the base closure.

I wish to thank you, Mr. Chairman, for sponsoring this legislation, and I ask for its passage at the earliest possible moment.

Thank you for your consideration and cooperation.

Very truly yours,

Jerome X. O'Donovan, Chair
Committee on Economic Development

SOUTH SHORE
CHAMBER OF COMMERCE

April 5, 1994

The Honorable William O. Lipinski
Chair, Merchant Marine &
Fisheries Sub-Committee
Room 1334
Longwarth House Office Building
Washington, D.C. 20515-6230

Dear Chairman Lipinski:

The South Shore Chamber of Commerce represents 2200 businesses along the east coast of Massachusetts from Boston to the Cape Cod Canal. We believe this region would benefit tremendously from the passing of HR 3821 and HR 3822; acts to help establish a cruise ship industry.

I would like to urge you to support these two bills. If I can be of any further assistance with regard to these pieces of legislation, please do not hesitate to contact me.

Sincerely,

Kevin M. Cuff
Government Affairs Manager

KMC/jlk

cc: National Cruise Ship Alliance
Congressman Gerry Studds

Portland Chamber

April 8, 1994

The Honorable William O. Lipinski, Chairman
Merchant Marine and Fisheries Subcommittee
Room 1334, Longworth House Office Building
Washington, DC 20515-6230

Dear Chairman Lipinski:

This letter is in support of passage of H.R. 3821 and H.R. 3822 which would facilitate U.S. shipbuilding, opportunities for shipyard conversion, open coastal cruise markets, create American jobs and provide opportunities for American investment in a market with proven economic potential.

The Portland Metropolitan Chamber of Commerce, with some 2,300 member businesses employing more than 300,000 people, is the largest business organization based in the state of Oregon. Its mission is to promote business prosperity and we believe this legislation would stimulate economic growth in the Pacific Northwest. We see a good possibility that passage of this proposal would stimulate additional ship repair opportunities for the Portland shipyard.

We encourage the United States Congress to establish a United States cruise ship registry, United States jobs, and a United States coastal cruise ship trade by establishing a cruise ship industry as set forth in H.R. 3821 and H.R. 3822.

Sincerely,

Donald S. McClave
President and
Chief Executive Officer

lip.doc

cc: George Duff, Seattle Chamber of Commerce
Mark Frazer, National Cruise Ship Alliance
Tom Decker, Port of Portland

Portland Metropolitan Chamber of Commerce
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Portland, Oregon 97209-3999
503 228 9411 *Fax 503 228 5126*

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SAN DIEGO
CHAMBER OF
COMMERCE

Emerald Shapery Center
402 West Broadway, Suite 1000
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A Catalyst for Change

April 5, 1994

The Honorable William O. Lipinski, Chairman
Merchant Marine and Fisheries Subcommittee
Longworth House Office Building, Room 1334
Washington, D.C. 20515-6230

Dear Chairman Lipinski:

On behalf of the Greater San Diego Chamber of Commerce, I am writing in support of H.R. 3821 and H.R. 3822.

San Diego's National Steel and Shipbuilding Company (NASSCO) was involved in the only overhaul of a cruise ship in recent years. The opportunity to compete for this expanded business would be a real boon to those who have seen military shipbuilding contracts disappear because of downsizing. This will also help overcome barriers that have blocked development of a United States cruise ship in our region.

We support the American cruise ship industry and fully endorse efforts to establish this business in the United States.

Sincerely,

Gilbert A. Partida
President

/psm

New York Chamber of Commerce

New York Chamber of
Commerce and Industry, Inc
One Battery Park Plaza
New York, NY 10004-1491
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Nissan & Co. (USA)

Sanford I. Weill
Primerica Corporation

Lawrence A. Weinbach
Arthur Andersen & Co

April 11, 1994

The Honorable William O. Lipinski
Chairman
Merchant Marine and Fisheries Subcommittee
Room 1334, Longworth House Office Building
Washington, D.C. 20515-6230

Dear Chairman Lipinski:

On behalf of the New York Chamber of Commerce and Industry and the New York City Partnership, I would like to express our support for HR 3821 and HR 3822. This legislation would allow foreign-built vessels to sail between U.S. ports with the understanding that the foreign owners contract with American ship builders for replacement vessels within three years. Also, this legislation would grant economic and tax incentives to stimulate U.S. investment in this industry.

Foreign-owned and operated cruise lines dominate the industry. In fact, only two cruise vessels fly the American flag, both of which are located in Hawaii. Despite foreign dominance in this industry, the majority of passengers are U.S. citizens (85%). Due to the Passenger Services Act, most U.S. citizens must travel to foreign ports to either board or disembark foreign cruise vessels.

By providing increased access to cruise ships for American passengers via U.S. ports, we believe this legislation would increase tourism in New York City. Since tourism is one of the City's leading growth industries and is a crucial element of our agenda for economic recovery, we strongly support this provision.

In addition to increased tourism, we believe that local businesses, such as restaurants, hotels and ship provisioners would benefit from home-ported vessel traffic. For example, studies estimate that just one cruise vessel can generate between $350,000 to $500,000 in regional revenues.

Furthermore, due to the defense budget cuts and subsequent closing of the Staten Island Homeport, the need for government support of defense diversification projects, such as ship construction and repair, is important. This legislation cites existing government resources, such as the Capital Construction Fund and Title XI loan guarantees as appropriate vehicles to support this industry.

Thank you, both for co-sponsoring this legislation and placing it on the agenda for consideration by the Merchant Marine and Fisheries Subcommittee.

Sincerely,

James P. Gifford
Executive Vice President

cc: Honorable Jolene Unsoeld

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Galveston, TX 77553
Tel 409/ 763-8935
Fax 409/ 763-8976

April 8, 1994

The Honorable William Lipinski
Chairman, House Merchant Marine Subcommittee
1334 Longworth House Office Building
United States House of Representatives
Washington, D C. 20515

Dear Chairman Lipinski

As Chairman of The House Merchant Marine Subcommittee, you are in an extremely unique position to help navigate what has been a non-existent U.S Flag cruise industry back into existence For many years now, I have promoted the concept of the revitalization of the U.S passenger ship cruise industry. However, due to the fragmentation of what should be all interested parties, no meaningful advancements have been made.

As a charterer and operator of foreign flag vessels for the past twenty-two years, it has been, and still is, my desire to own and operate a U S. Flag vessel H R 3821 U.S Passenger Vessel Development Act and H R 3822 U.S. Passenger Vessel Development Tax Act is the most comprehensive legislation I have seen come before the House. While it does not go far enough in some areas, the two bills together should go a long way in enticing investors and operators into U.S Flag cruise ventures

I would urge you to not only support the above mentioned legislation, but to take an active leadership role in ensuring its passage on a fast track.

Kindly submit this letter to be included in the record for your hearing which is to take place on April 13, 1994. I am available to discuss my thoughts on this subject at most any time.

Very Truly Yours,

Paul H. Wells
President & CEO

PHW/dlw

cc: Mr. Marc Frazer, National Cruise Ship Alliance

ROYAL AMERICAN CRUISE LINES CORPORATION
500 Bayview Drive, PH 32 • North Miami Beach, FL 33160

Please Reply to:

HERBERT S. HALL
Vice President & Secretary

3916 SW Bimini Circle
Palm City, FL 34990
Tel: 407/286-3027 • Fax: 407/286-1350

April 8, 1994

The Hon. William O. Lipinski, M.C.
Chairman
House Merchant Marine & Fisheries Subcommittee
1501 Longworth House Office Building
Washington, D.C. 20515

Dear Congressman Lipinski:

Subject: U.S. Passenger Vessel Development Acts - HR 3821 and HR 3822

We at Royal American Cruise Lines are extremely pleased to note that your Subcommittee has undertaken serious consideration of Representative Jolene Unsoeld's well-conceived legislation to promote the U.S. shipbuilding industry and U.S. maritime jobs.

ROYAL AMERICAN CRUISE LINES CORPORATION is a newly formed Nevada corporation which will operate a day-cruise passenger vessel from Port Everglades, in Fort Lauderdale, Florida. We have committed to the purchase of a foreign-flag vessel, but will perform necessary reconditioning and upgrade for re-flagging of the vessel to U.S. registry, and will hire a wholly U.S. crew of 200 or more persons. We expect to be in operation by the Fall of 1994, adding a maritime and shoreside payroll of $7 million U.S. taxable dollars, plus $10 million or more in expendables and other expense, to the U.S. economy.

While our understanding of the Unsoeld Bills is that they do not specifically address day-cruise or coastal cruise operations, we nevertheless plan to establish a Capital Construction Fund and to place an order within one to two years for a new cruise ship to be built in a U.S. yard for delivery in 1997 or 1998. Without question, the Title XI provision of the Unsoeld Bills is a major incentive to us to undertake such a program, and we believe that other cruise line companies will similarly be motivated. U.S. shipyards and U.S. taxpayers will all benefit thereby.

Continued.....

As individuals and on behalf of Royal American Cruise Lines Corporation, we fully support the enactment of the Unsoeld Bills. Mr. Rick Schuman, Chairman of the Corporation, would be pleased to provide testimony supporting the favorable impact of this legislation on the cruise industry and the U.S. economy. Please let me know if this is desired.

We request that this letter be made a part of the Official Record. Thank you for your attention.

Sincerely,

ROYAL AMERICAN CRUISE LINES CORPORATION

Herbert S. Hall
Vice President and Secretary

SNOW BECKER KRAUSS P.C.

CHARLES SNOW
JACK BECKER
HARVEY KRAUSS
ALAN H. ARONSON
H. DAVID BERKOWITZ
MARK S. BORTEN
STEPHEN J. DI CIOCCIO
THOMAS L. FUERTH
HARLAN T. GREENMAN
WILLIAM D. HUMMELL*
FRANCIS V. IMBORNONE◊
PAUL C. KURLAND
ELLIOT H. LUTZKER+
MARC J. LUXEMBURG
SIMON TAYLOR+
ALAN VAN PRAAG

*ALSO ADMITTED IN AZ
◊ALSO ADMITTED IN CA
+ALSO ADMITTED IN FL
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April 8, 1994

BY FEDERAL EXPRESS
Hon. William O. Lipinski, M.C.
Chairman, House Merchant Marine & Fisheries
Subcommittee
1501 Longworth House Office Building
Washington, D.C. 20515

Re: Royal American Cruise
Lines Corporation, a Nevada Corporation
Our File: 18186-001

Honorable Sir:

On behalf of Royal American Cruise Lines Corporation ("Royal"), a wholly U.S. owned Nevada corporation, we would like to take the opportunity to applaud your subcommittee for its wisdom in undertaking the Passenger Vessel Development Acts ("PVDA"). We would also like to take the opportunity to applaud the Honorable Jolene Unsoeld for her prescience and vision in writing legislation whose effectuation will resuscitate an American flag merchant marine.

In consonance with the aspirations of the PVDA, Royal is presently in contract to purchase and take delivery of a foreign flag vessel, which will be reflagged under U.S. colors and refurbished at a domestic former naval shipyard. The intended employment of the vessel is in a coastwise short cruise trade. The business plan of Royal calls for the corporation to build several larger vessels under Title XI for operation in a variety of coastwise trades. Further, as contemplated by the PVDA, Royal intends to take advantage of the various tax benefits encompassed within the Act, which are clearly designed to encourage the utilization of the Act's provisions. In light of the extremely favorable affect passage

of the PVDA would render to Royal and its planned operations, it is little wonder that Royal enthusiastically embraces its terms and congratulates the Chairman and the Subcommittee for their sagacity in favoring its passage.

We respectfully request that this letter be made part of the record of the forthcoming hearings considering the PVDA, and would be pleased to appear before the subcommittee at our time and expense.

Respectfully,

Alan Van Praag

cc: Royal American Cruise Lines Corporation

1138V/86-87

INTERNATIONAL MARINE CARRIERS, INC.
Ship Management

Corporate Offices:
22 Jericho Turnpike, Mineola, NY 11501
Telephone (516) 741- 2700 - Facsimile (516) 741-2847
TLX (650) 442-0947 or (510) 221-2181

April 8, 1994

The Honorable William O. Lipinski
Chairman
Merchant Marine and Fisheries Subcommittee
Room 1334
Longworth House Office Building
Washington, DC 20515-6230

Dear Mr. Lipinski:

We are writing to you concerning the April 13, 1994 hearing on Representative Jolene Unsoeld's proposal to establish a U.S. cruise ship industry. As a U.S. flag vessel manager and operator, establishment of this legislation is important to us.

We would like to ask your help in ensuring the development of U.S. flag cruise ships and U.S. shipyards by cosponsoring and voting in favor of H.R. 3821, the United States Passenger Vessel Development Act and H.R. 3822, the United States Passenger Vessel Development Tax Act, when they come before the House.

We would like to request that our letter be included in the record. We thank you for your time and for your vote.

Very truly yours,

INTERNATIONAL MARINE CARRIERS, INC.

D. W. Walton

Dave Walton
Vice President/Quality Assurance

RGW:db

ARMSTRONG ASSOCIATES Maritime Advisory Group

April 27, 1994

Hon. William O Lipinski, M.C.
Chairman
House Merchant Marine & Fisheries Subcommittee
1334 Longworth House Office Building
Washington, D C. 20515

Re: **HR 3821 and HR 3822**

Dear Congressman:

I write in support of the goals presented by the referenced legislative proposals that were introduced to Congress by Jolene Unsoeld (D-WA) on February 8, 1994. Merchant Marine Subcommittee hearings were held April 13, 1994.

The authority to reflag passenger vessels to the US-flag, with the issuance of coastwise trading endorsement (Jones Act trades) is a remarkable solution to 'jump start' the American Flag cruise ship industry. After all, US-based foreign flag cruise ships have monopolized the industry from its very inception in the mid 60'S. To benefit from the legislative effort, the proviso that cruise ship owners reflagging must contract to build similar sized tonnage in a US shipyard almost immediately, but as a boon, the reflagged ship can function in Jones Act trades while the newbuilding project is underway. That is eminently fair.

Increasing foreign ownership percentages from 25% to 49% ought to stimulate foreign investment because it is a realistic share of participation. The utilization of IMO-SOLAS standards for passenger ship construction (and for interim ships) makes sense, particularly in view of the almost 25 years of accident-free US-based foreign-flag cruise ship activity. Title XI financial guarantees will assist domestic shipyards greatly and make ship construction financing programs available because the full faith and credit of the United States of America is placed on the line.

Preference for calls to the national park system (Glacier Bay) truly belong to US-flag operators first, not the US-based foreign flag operator, who neglected to pay taxes or employ US citizens, and who in fact wanted the very best the United States can offer -- without, of course, having to pay for it.

The implementation of a capital construction fund, replete with modern changes to archaic rules make the opportunity more appealing. Antique depreciation schedules have been taken from ten- to three years -- a benefit long sought by serious investors.

2410 Brickell Avenue, Miami, FL 33129 Tel 305/856-9297 Fax 305/856-7880

The business meeting and convention market, representing $57bn annually, perhaps is the most lucrative aspect mentioned in the legislative proposals, and the removal of the $2000 per person tax deduction cap, and the authorization of foreign itineraries should entice significant convention and business meeting trade to the US-flag market. An added benefit, permitting duty free sales on foreign legs of the domestic transits ought to stimulate passenger/ ferry business in many areas, the least of which would be the Tampa/New Orleans/Houston service

It seems apparent the Congress is now on the right track to insure that we will see a birth of a US-flag cruise ship industry. It is long over due, but at least we are focusing on the issue.

Please make this letter a part of the official record of the proceedings

Sincerely yours,

William E. Armstrong
President

PORT of GALVESTON

April 11, 1994

The Honorable William O. Lipinski, Chairman
Merchant Marine & Fisheries Committee
Room 1334, Longworth House Office Building
Washington, D. C. 20515-6230

Dear Chairman Lipinski:

This letter is written to express our wholehearted support of the overall concept of HR 3821 and HR 3822 which will be discussed in your subcommittee April 13, 1994.

The ability to be able to cash in on the cruise industry by opening the U.S. Coastwise movement of passengers would most certainly have positive economic impact on our city and port, as well as all U.S. coastal regions. Galveston has worked very hard to establish itself in the industry, but the lack of destinations able to be reached in a reasonable amount of time has been a major objection.

It is a fact that it has been over 30 years since a U.S. shipyard has built an ocean going passenger vessel. The question that looms ahead with this or any legislation regarding the rebirth of U.S. shipbuilding is whether existing facilities can retool and deliver a vessel at a competitive price, especially with the time frames put forth in this legislation.

It still remains to be seen if a U.S. flag operation paying union wages to its crew can be a competitive product vying with a foreign flag operator.

We sincerely believe the passage of this legislation could be very meaningful. I urge you to recognize that one bill without the other may be meaningless. I further suggest an investigation of our existing shipbuilding facilities be done to realistically evaluate whether Representative Unsoeld's incentives and deadlines will do what we need to make a U.S. flag cruise industry a reality.

Very truly yours,

Ron R. Surovik
Interim Port Director

RRS:JB

RON R. SUROVIK, INTERIM PORT DIRECTOR

P. O. Box 328 Galveston, Texas 77553 Tel (409) 766-6103 Fax (409) 766-6171

Port of Portland

Box 3529, Portland, Oregon 97208
503/231-5000

April 11, 1994

Honorable William O. Lipinski
Chairman
Merchant Marine and Fisheries Subcommittee
543 Ford House Office Building
Washington, DC 20515

Dear Mr. Chairman:

We are pleased to offer our support for a legislative package introduced by Representative Jolene Unsoeld, H.R. 3821 and H.R. 3822. Together, these measures would help overcome barriers that have blocked full development of the cruise ship industry in this country.

The Port of Portland operates the only publicly owned shipyard in the country, Portland Ship Yard (PSY), and we also are interested in promoting our region as a cruise destination. We are pleased that Representative Unsoeld's two bills will bring attention to both sides of the cruise equation: U.S. access to coastal cruises and promotion of U.S.-built cruise vessels.

As you are aware, although approximately 85 percent of cruise passengers are from the U.S., our nation's registry of cruise vessels has dwindled to two. These two remaining vessels have been in our yard on several occasions for repair work, so our region still benefits from cruise business. However, we believe the Unsoeld proposals for economic incentives to spur U.S. cruise ship construction will help provide a revitalized market for PSY.

As evidence that our U.S. yards already can compete for this work, our contractors also have completed work on foreign registry vessels. We anticipate this being an active and growing market at PSY and the goals of the Unsoeld proposals should only enhance our efforts here at Portland.

Part of what is at stake in Portland is a modern yard that has employed as many as 3,500 workers in the past. Due to the tough times in the shipbuilding and repair sectors, the number of workers still on the job has diminished.

Also at stake is the tourist market. For the Pacific Northwest, we see an important reminder of this lost opportunity each year as a large number of cruises begin and end at Vancouver, B.C., to our north. In the past decade, Portland has attracted only a handful of cruise vessel visits, other than for repairs, a number well below the level of business in Canada. These bills, by permitting foreign flag ships to begin operations between U.S. ports with the requirement for a U.S.-built replacement, will encourage operations out of more U.S. ports.

We are pleased this legislation begins the process of overcoming barriers to the construction and operations sides of the cruise industry in the U.S. If we are serious about improving our global competitiveness in this industry, these proposals are good starting points.

Yours very truly,

Mike Thorne
Executive Director

PORT OF PORT ANGELES

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M. CHRISTINE ANDERSON
Executive Director

COMMISSIONERS
President
ANDREW NISBET, Sequim
Vice President
GLENN BECKMAN, Forks
Secretary
DICK FOSTER, Port Angeles

April 11, 1994

The Honorable William O. Lipenski, Chairman
Merchant Marine Fisheries Subcommittee
Room 1334, Longworth House Office Building
Washington, D.C. 20515-6230

Dear Chairman Lipenski:

The Port of Port Angeles is located on the Olympic Peninsula on the northwest corner of the State of Washington. The port has been severely economically impacted over the last several years by the continued debate regarding federal policy on pubic timber lands in the northwest. In addition just recently, severe restrictions have been placed on salmon fishing for both commercial and recreational seasons. These factors have and will continue to erode our economic base.

The Port has embarked on an aggressive plan that will, over the long term help in expanding and diversifying our revenue. One of the areas that has been identified as a new opportunity for us is the development of the cruise ship industry. We have extreme interest in the passage of HR 3821 and HR 3822, which would help open opportunities for communities such as ours to create jobs and economic growth. We encourage your support of HR 3821 and HR 3822 and would be pleased to respond to any questions you may have. We look forward to your favorable action.

Sincerely,

PORT OF PORT ANGELES

M. Christine Anderson
Executive Director

MCA:sb

DRC
DOWNTOWN REVITALIZATION COMMITTEE
U.S. National Bank Building
2201-05 Market Street
P.O. Box 715 • Galveston, Texas 77553
(409) 763-7080

April 26, 1994

The Honorable William O. Lipinski, Chairman
Merchant Marine & Fisheries Committee
Room 1334, Longworth House Office Building
Washington, DC. 20515-6230

Dear Chairman Lipinski,

This letter is written to express the Downtown Revitalization Committee's wholehearted support of the overall concept of HR 3821 and HR 3822. In addition to this support the DRC Board of Directors voted to support the following resolution:

WHEREAS, The United States of American and American port cities seek opportunities for economic development; and

WHEREAS, The cruise ship industry has grown on average 9.3 percent every year since 1980 and its expected to double within the next ten years to gross $9 billion annually; and

WHEREAS, A major cruise vessel can bring up to $500,000 to hotels, restaurants, ship suppliers, and other local businesses when in port cities; and

WHEREAS, Cruises between U.S. ports would create new cruise markets and bring cruise business to many American port cities; and

WHEREAS, The Passenger Services Act passed by the Congress in 18886 prohibits foreign flag ships from transporting passengers between United States ports; and

WHEREAS, the passage of H.R. 3821 and H.R. 3822 would open the U.S. Coastal movement of passengers which is expected to have positive economic impact on our city and port as well as all U.S. coastal regions; and

WHEREAS, Texas A & M University at Galveston is home to one of only six maritime training programs in the United States and the only such program on the Gulf of Mexico; and

WHEREAS, H.R. 3821 and H.R. 3822 are designed to facilitate U.S. Shipbuilding, stimulate opportunities for shipyard conversion, create American jobs and provide opportunities for American investment in a market

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with proven economic potential without financial incentives currently in place; and

WHEREAS, The passage of H.R. 3821 and H.R. 3822 would be enacted without unduly taxing existing maritime business partners.

THEREFORE, be it resolved that the Board of Directors of the Down town Revitalization Committee endorses the overall concept of H.R. 3821 and H.R. 3822 given that this legislation does not create a hardship on the U.S. shipping industry and that it be designed to address the issue regarding financial incentive support in the U.S. shipbuilding industry so that existing facilities can have the necessary resources to retool and deliver a vessel at a competitive price, especially with the time frames in this proposed legislation.

Respectfully Submitted,

Charlotte Stewart

Charlotte Stewart
Executive Director

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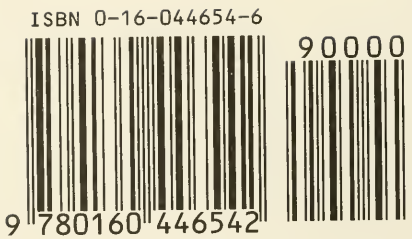
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